12/2/77 [1]

Folder Citation: Collection: Office of Staff Secretary; Series: Presidential Files; Folder: 12/2/77 [1]; Container 53

To See Complete Finding Aid:
http://www.jimmycarterlibrary.gov/library/findingaids/Staff_Secretary.pdf

WITHDRAWAL SHEET (PRESIDENTIAL LIBRARIES)

FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
memo	From Blumenthal to The President)2 pp.) re: Foreign Tax Credits for OPEC Taxes/ enclosed in Hutcheson to Blumenthal	12/1/77	A

FILE LOCATION

Carter Presidential Papers- Staff Offices, Officeof the Staff Sec.- Pres. Handwriting File 12/2/77 [1] BOX 62

RESTRICTION CODES

(A) Closed by Executive Order 12356 governing access to national security information.
(B) Closed by statute or by the agency which originated the document.
(C) Closed in accordance with restrictions contained in the donor's deed of gift.

THE PRESIDENT'S SCHEDULE

Friday - December 2, 1977

7:30	Breakfast with Vice President Walter F. Mondale, Secretary Cyrus Vance, and Dr. Zbigniew Brzezinski - The Roosevelt Room.
9:00	Dr. Zbigniew Brzezinski - The Oval Office.
9:30 (15 min.)	Meeting with Group of House Members. (Mr. Frank Moore) - The Cabinet Room.
10:30	Mr. Jody Powell - The Oval Office.
10:45 (10 min.)	Ceremony/Shippingport Breeder Reactor. (Mr. Barry Jagoda) - The Oval Office.
11:00	Mr. Charles Schultze - The Oval Office.
11:55 (3 min.)	Mr. and Mrs. George E. Saunders. (Mr. Hugh Carter). . The Oval Office.
12:00 (10 min.)	Attorney General Griffin Bell - The Oval Office.
2:00 (90 min.)	Budget Appeals Meeting. (Mr. James McIntyre). The Cabinet Room.

THE WHITE HOUSE

WASHINGTON

THE PRESIDENT'S ADDRESS TO THE NATIONAL TRIBUTE TO THE HONORABLE HUBERT HUMPHREY

Friday, December 2, 1977

9:20 p.m. The President and Mrs. Carter board motorcade on South Grounds. Motorcade departs South Grounds en route Washington Hilton Hotel.

DRIVING TIME: 10 minutes

9:30 p.m. Motorcade Arrives Washington Hilton Hotel (Presidential Entrance)

PRESS POOL COVERAGE
CLOSED ARRIVAL

ADVANCE: Ed Maddox

9:31 p.m. The President and Mrs. Carter proceed to offstage announcement area.

9:32 p.m. Announcement of the First Lady's arrival - by Alan King.

Mrs. Carter proceeds directly to Humphrey table.

(At table: Vice President & Mrs. Mondale,
Senator and Mrs. Humphrey
Helen Reddy and Jeff Wald (her husband)

9:33 p.m. Announcement of the President's arrival - by Alan King.

President proceeds to podium.

9:34 p.m. Presidential Remarks.

OPEN PRESS COVERAGE

9:44 p.m. Remarks conclude.

9:45 p.m. President proceeds to Humphrey table to greet Senator and Mrs. Humphrey & guests.

PRESS POOL COVERAGE

9:50 p.m. President, accompanied by Mrs. Carter, departs ballroom for motorcade

9:53 p.m. Motorcade departs.

10:03 p.m. Motorcade arrives South Grounds.

THE WHITE HOUSE
WASHINGTON
December 5, 1977

The Vice President
Hamilton Jordan

The attached is forwarded to you for your information.

Rick Hutcheson

RE: A SEPARATE DEPARTMENT OF EUDCATION

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

C

December 2, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: STU EIZENSTAT Stu

SUBJECT: Separate Department of Education

Following our discussion this afternoon, I wanted to clarify both my own position and the circumstances surrounding the meeting with you.

As you will recall, I left Washington the Wednesday afternoon before Thanksgiving for a religious ceremony and Thanksgiving holidays. At that time, neither the OMB decision document nor Joe Califano's memorandum was available. I did take materials prepared by my staff with me, but they could not give either OMB's or HEW's final position. I therefore had to read the briefing documents giving the two agencies' positions when I returned on Monday morning, and did not have time to prepare a written memo to you for the meeting Monday afternoon. I regret that because of the holiday I was unable to provide you with these views in written fashion before your meeting. I had previously told Jim McIntyre and Ham privately that I favored a separate Department due to your repeated campaign commitments, but was open on what should be included within such a Department.

On the merits, briefly my position is as follows:

- Joe Califano makes a strong case against a separate Department of Education. If we had no campaign commitments, these arguments would deserve considerable weight. However, no commitment we made was clearer. In addition, I am impressed with the argument made by the Vice President and by you that, under the present structure, education has no advocate in the upper policy levels of the Executive Branch. Therefore, I am in favor of endorsing a separate Cabinet-level Department of Education.

- I am, however, opposed to adding social services to the Department as OMB proposes. I support the notion of using the schools to a greater extent for the provision of social services, particularly to children and families. Through the Milliken project and actions HEW is taking in the health area, your Administration is moving in that direction.

  Moving social services to a Cabinet-level Education Department would support this concept. However, it would divorce social services from welfare, social security, medicare, and medicaid. Yet these programs presently are linked closely to social services, and in many cases share common delivery systems at the state and federal level. I do not believe that at this time we could defend, as a policy matter, separating social services from these programs. In addition, I believe such action would disturb governors, state welfare directors and the Senate Finance and House Ways and Means Committees -- jeopardizing enactment of the Education Department.

  Moreover, education groups are not enthusiastic about such a combination at this time, since they see it subsuming the education function and relying on entirely separate delivery systems.

Differences Between OMB and HEW

As I understand it, there are major differences between the HEW position and the OMB position.

- OMB recommends announcing early next year a new Department centered on both HEW's Office of Education and Office of Human Development.

- HEW recommends an announcement next year, that, at the present time, you will oppose creation of a new Department in these areas, but that after several years you might be willing to reconsider. In the meantime, Joe would implement the internal reorganization and upgrading of education within HEW recommended in his memorandum to you.

How to Proceed

As I mentioned at the meeting, I recommend that Jim McIntyre or Secretary Califano testify before Senator Ribicoff's committee endorsing the general concept of a separate Department of Education, not including social services, early next year. The statement would indicate that OMB and HEW will work closely with the appropriate Congressional committees to develop the final bill in the context of the legislative process. I would recommend against sending up a detailed Administration bill, in view of the long Congressional history. I understand this is the position you approved at the meeting.

THE WHITE HOUSE

WASHINGTON

November 28, 1977

MEMORANDUM FOR: THE PRESIDENT

FROM: RICHARD PETTIGREW Dick

SUBJECT: OMB Recommendations Regarding a Department of Education

I find the OMB proposal for a broad Department of Education and Human Development most promising. Moving toward this option accomplishes the following:

- it most completely fulfills your campaign commitment, the breadth of which, I sense, was based on a perception that our educational efforts must better recognize and address the overall social conditions that influence learning capacity;

- it signals the prominence of education as a Federal concern, without turning education over completely at the Federal level to a narrow, insulated, professionally dominated establishment (as is already the case at the state and local levels);

- it promises a substantively defensible and politically attractive breaking-up of HEW, the popular epitome of overgrown, unaccountable bureaucracy; and

- it accomplishes the above goals without falling prey to the cargo preference-type charge that you are simply repaying a political debt.

The narrow Department option, on the other hand, is substantively weak in terms of any contribution to quality education. It has only short-run political value, and even this relatively "easy" step entails substantial political costs. It departs from the overall objectives of deliberate, comprehensive reorganization. Creation of such a small, narrow-gauge, but Cabinet-level Department will send the wrong signals to "reorganization watchers" in and out of government. In addition, I fear that such a Department, once created, will be politically most difficult to broaden.

The OMB analysis favors a broad Department but recommends that you delay committing to this option until further groundwork, analytical and political, can be laid. I support this recommendation and strategy, but with one tactical caveat. Unless you signal publicly that a narrow Department is unacceptable, there will be no incentive for the NEA and its "Big Six" allies to negotiate with us on the broad Department option or, eventually, to support it. Tactically, we need to convince the NEA and its allies that if they do not cooperate in shaping and working for a broad Department, they will be left with the status quo.

In addition to providing time for political consensus-building, a delay in committing to a broad Department of specific content serves these purposes:

- it permits reorganization alternatives to be evaluated in light of the policy results of your welfare reform, health insurance and urban initiatives;

- similarly, it enables us to better conform education organization to your still emerging education policy, as embodied, for example, in your forthcoming Education Message and in the imminent Elementary and Secondary Education Act extension;

- it gives us necessary time to assess this step in the context of other desirable, major interdepartmental reorganizations that might be on the horizon;

- finally, it enables us to bypass constructively the first five to six months of next year, when the Administration will be pressing other priorities (some of which are very important to constituencies, *e.g.*, Urban League and AFL-CIO, most skeptical of education reorganization).

In summary, the broad Department holds much promise for improving education and human development as a whole, conforms better to your campaign commitment and to the overall goals of the reorganization effort, and responds well to popular concerns about the size and unworkability of HEW. If our consensus-building effort fails to generate the support necessary for a broad Department, we can still upgrade education within HEW and explore a full range of options for reorganizing HEW on alternative grounds, if segmenting that Department proves advisable.

I would opt for announcing your detailed position at mid-year, with the expectation that Congress would not act conclusively, due to other priorities, until 1979.

THE WHITE HOUSE

WASHINGTON

Date: November 23, 1977 MEMORANDUM

FOR ACTION:	
Vice President	Jordan
Eizenstat	Powell
✓Moore	Pettigrew
Watson	Schultze
Lipshutz	Moe

FOR INFORMATION:

FROM: Rick Hutcheson, Staff Secretary

SUBJECT: McIntyre memo re Reorganization Programs for Education

Confidential

YOUR RESPONSE MUST BE DELIVERED TO THE STAFF SECRETARY BY:

TIME: 11: 00 a.m.

DAY: Monday

DATE: November 28

No Extensions

ACTION REQUESTED:

X Your comments

Other:

STAFF RESPONSE:

____ I concur. ____ No comment.

Please note other comments below:

There is ~~[illegible]~~ only superficial support among the traditional education supporters in the House. They fear NEA's pressure. On the other hand only the broad based option makes any sense – if we are going to propose a cabinet level dept. it should begin with a format that has a chance of success. The narrow Dept. would be viewed as purely a sop to NEA. Bill Cable

Broadly-based Department very popular in Senate (especially with Sen. Pell, Chairman of Education Subcommittee). Note, however, that creation of such a department would strip H.E.W. of those programs with which it makes positive political points with the Hill, leaving only those unpopular programs (mainly welfare) in Califano's bailiwick.

Tate (Senate)

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

THE WHITE HOUSE
WASHINGTON

December 2, 1977

Hamilton Jordan
Jim McIntyre

The attached was returned in the President's outbox. It is forwarded to you for appropriate handling.

Rick Hutcheson

RE: "CARTER REDUCING PLAN ADDS POUNDS"

cc Ham
McIntyre
Present this
JC

Reader's Digest, December 1977

"Arms Control: The Russians Are Cheating!"
By Melvin R. Laird

The Soviet Union is repeatedly violating the SALT I accords, former defense secretary Melvin Laird writes, and in so doing is posing a grave threat to U.S. security. He says evidence of such violations has been withheld from the Congress, the press and the public. As evidence of violations, Laird cites: repeated Soviet testing of radar for use with an anti-ballistic missile system; testing of movable ABM radars; testing aimed at upgrading an anti-aircraft missile system into an ABM system; and deliberate concealment of newly-produced SS-16 missiles. He calls on the U.S. to take a harder line on Soviet violations, and says, "Our position should be that henceforth any deliberate violation of a treaty will mean instant abrogation of that agreement."

Science, December 2, 1977

"Occupational Cancer: Government Challenged In Beryllium Proceeding"
By Deborah Shapley

The beryllium industry and the government are locked in an intense struggle over the question of whether beryllium should be declared a carcinogen. The tough, lightweight, heat resistant metal has been widely used since World War II in electronics and missile parts. At issue in the dispute is a study by the National Institute for Occupational Safety and Health, (NIOSH) which concludes that the lung cancer rate among beryllium workers in a Pennsylvania plant is unusually high. The industry charges that the animal data used in the study are an insufficient base for a federal standard because the animal data are negative for beryllium copper, the form to which 70 per cent of the industry's workers are exposed. The beryllium industry also charges that a NIOSH official engaged in a telephone conversation that was "a naked threat to intimidate industry witnesses."

"Carter Reducing Plan Adds Pounds"

As part of his plan to reorganize the bureaucracy, President Carter announced in August that the number of federal advisory committees would be cut by about 40 per cent. It was anticipated that the total number of members of panels would decline. "Now, in at least one federal agency, the National Science Foundation, this has proved not to be the case. Although 36 NSF committees have been consolidated in 14, the number of panelists will actually increase from 378 to 540." The new committees each have subcommittees which replace the eliminated panels.

11:55 AM

THE WHITE HOUSE

WASHINGTON

December 1, 1977

FAREWELL PHOTO WITH GEORGE E. SAUNDERS

Friday, December 2, 1977
11:55 a.m. (3 minutes)
The Oval Office

From: Hugh Carter HC.

I. PURPOSE

Farewell Photograph

II. BACKGROUND, PARTICIPANTS & PRESS PLAN

A. Background: George Saunders will be retiring on December 31 after 33 ~~years with the FBI,~~ 13 of them as FBI Liaison with the White House.

Prior to his assignment at the White House, George served the FBI as a Special Agent in Washington, D.C., Pittsburgh and Philadelphia, in addition to his work in the FBI's Identification Division prior to becoming an Agent.

His wife, Rachel, is employed in the Correspondence Section of the White House.

B. Participants: George Saunders
Rachel Saunders
Hugh Carter

C. Press Plan: White House Photographer only

THE PRESIDENT HAS SEEN.

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

C

EYES ONLY

November 30, 1977

MEMORANDUM FOR THE PRESIDENT

From: Charlie Schultze CLS

Subject: November Employment and Unemployment Data (to be released Friday morning)

The news is good, but peculiar. While unemployment fell only slightly, from 7.0 to 6.9 percent, total employment rose by 950,000, an incredible amount for one month. The labor force grew by almost as much, so unemployment fell very little. According to the survey some 200,000 men, 600,000 women, and 100,000 teenagers were added to the labor force in November.

These numbers are taken from a survey of 47,000 households. A separate survey of business firms (the "establishment" survey) shows a November gain of "only" 300,000 in employment. That itself is a very good rise. There are always month-to-month differences between the two series, but nothing this large. The Bureau of Labor Statistics is trying to find out why.

One additional piece of good news in the data: total manhours worked have risen at an annual rate of 5.3 percent in the two months since September, very probably indicating a healthy pickup in production.

On balance, the economic news has been good in the past month.

- October retail sales rose nicely;
- New orders for machinery and equipment increased sharply from August to October;
- October housing starts advanced beyond our expectations;
- The manufacturing layoff rate fell in October; and
- The November employment and hours data are encouraging, despite the small decline in unemployment.

The midsummer lull lasted longer than we thought, but the pickup we had been expecting now seems to be occurring. The news is welcome. But the economic trends we are projecting for next year -- some further decline in unemployment to about mid-year, followed by slower growth -- still seem the best estimate.

THE WHITE HOUSE
WASHINGTON

December 2, 1977

Stu Eizenstat

The attached was returned in the President's outbox. It is forwarded to you for your information.

Rick Hutcheson

cc: Frank Moore

RE: LETTER FROM CONG. CONYERS ON FULL EMPLOYMENT AND BALANCED GROWTH ACT

THE WHITE HOUSE

WASHINGTON

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
		MONDALE
		COSTANZA
/		EIZENSTAT
		JORDAN
		LIPSHUTZ
	/	MOORE
		POWELL
		WATSON
		LANCE
		SCHULTZE

		ENROLLED BILL
		AGENCY REPORT
		CAB DECISION
		EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

		ARAGON
		BOURNE
		BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		HARDEN
		HUTCHESON
		JAGODA
		KING

		KRAFT
		LINDER
		MITCHELL
		MOE
		PETERSON
		PETTIGREW
		POSTON
		PRESS
		SCHLESINGER
		SCHNEIDERS
		STRAUSS
		VOORDE
		WARREN

THE WHITE HOUSE
WASHINGTON

MR. PRESIDENT:

I thought you would be pleased to see this letter so I share it with you.

Stu

Stu Eizenstat

1 Dec 77

If he would only reverse his public & private statements!

THE PRESIDENT HAS SEEN.

HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

JOHN CONYERS, JR.
1ST DISTRICT, MICHIGAN

November 15, 1977

Honorable Stuart E. Eizenstat
Assistant to the President
The White House
Washington, D.C. 20500

Dear Stu:

I just want to express my deep appreciation to you for your efforts in moving the Full Employment and Balanced Growth Act closer to realization. The President's commitment to H.R. 50 is an act of great courage and leadership. No other President in the last thirty years has asserted, as he has, the fundamental responsibility of the Federal Government and the private sector to insure full employment opportunity to all Americans. The strength of this landmark legislation lies in its simple justice and basic economic soundness which, I am convinced, will carry it through to a successful conclusion.

Sincerely,

John.

John Conyers, Jr.

THE WHITE HOUSE

WASHINGTON

December 2, 1977

The Vice President
Frank Moore

The attached was returned in the President's outbox. It is forwarded to you for your information.

Rick Hutcheson

RE: LETTER FROM CONG. OTTINGER CONCERNING OPPOSITION TO ENERGY TRUST FUND

THE WHITE HOUSE
WASHINGTON

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
	/	MONDALE
		COSTANZA
		EIZENSTAT
		JORDAN
		LIPSHUTZ
	/	MOORE
		POWELL
		WATSON
		LANCE
		SCHULTZE

		ENROLLED BILL
		AGENCY REPORT
		CAB DECISION
		EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

		ARAGON
		BOURNE
		BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
		CLOUGH
		FALLOWS
		FIRST LADY
		HARDEN
		HUTCHESON
		JAGODA
		KING

		KRAFT
		LINDER
		MITCHELL
		MOE
		PETERSON
		PETTIGREW
		POSTON
		PRESS
		SCHLESINGER
		SCHNEIDERS
		STRAUSS
		VOORDE
		WARREN

RICHARD L. OTTINGER
24TH DISTRICT, NEW YORK
240 CANNON HOUSE OFFICE BUILDING
(202) 225-6506
COMMITTEES:
INTERSTATE AND FOREIGN COMMERCE
SCIENCE AND TECHNOLOGY

THE PRESIDENT HAS SEEN.

Congress of the United States
House of Representatives
Washington, D.C. 20515

DISTRICT OFFICES:
10 FISKE PLACE
MOUNT VERNON, NEW YORK 10550
(914) 699-2866

77 QUAKER RIDGE ROAD
NEW ROCHELLE, NEW YORK 10804
(914) 235-5600 OR
428-3040

C

December 2, 1977

The President
The White House
Washington, D. C. 20500

Dear Mr. President:

We would like to transmit to you the enclosed letter, signed by 101 Members of Congress, detailing our opposition to the energy trust fund as adopted by the Senate on October 29th.

The proposed trust fund is poorly defined, and our opposition to it is strong; we do not believe that it should be included as a part of the National Energy Act.

With best wishes.

Sincerely,

John Seiberling
John F. Seiberling
Member of Congress

Richard Ottinger
Richard L. Ottinger
Member of Congress

RICHARD L. OTTINGER
24TH DISTRICT, NEW YORK

240 CANNON HOUSE OFFICE BUILDING
(202) 225-6506

COMMITTEES:
INTERSTATE AND FOREIGN COMMERCE
SCIENCE AND TECHNOLOGY

Congress of the United States
House of Representatives
Washington, D.C. 20515

DISTRICT OFFICES:
10 FISKE PLACE
MOUNT VERNON, NEW YORK 10550
(914) 699-2866

77 QUAKER RIDGE ROAD
NEW ROCHELLE, NEW YORK 10804
(914) 235-5600 OR
428-3040

December 1, 1977

Dear House Conferee:

The energy and mass transit trust funds, adopted by the Senate in its energy tax package, will soon be considered by the Energy Conference Committee. This measure represents yet another attempt by the Senate to win approval of a massive subsidy program by circumventing the perogatives of the House.

The fund is poorly defined; it gives a virtual blank check to commit Federal funds to undefined energy projects without adequate provision for congressional control; and the Senate conferees are free to broaden its size and scope. Its sponsors strongly endorsed the Rockefeller-designed $100 billion Energy Development Corporation when he testified before the Senate Finance Committee in September. This kind of program would divert revenue away from education, health and housing programs and would, instead, finance energy-intensive, capital-intensive projects that would provide expensive energy -- which, in turn, would require price supports to be competitive. Moreover, the program would be extremely inflationary.

This latest effort to win backdoor approval of a subsidy program in conference is a serious evasion of the rights of the Members of the House. No similar proposal was included in the House version of the National Energy Act. House Members who have repeatedly rejected such subsidy programs in the past would be denied an opportunity to act independently on the trust fund if it were approved by the Conference.

Numerous Members will have serious difficulty in voting for the entire energy bill if it contains such a trust fund. We strongly urge the House conferees to stand firm against this effort to get House approval of a massive, ill-conceived, open-ended subsidy program constructed in a conference committee mark-up.

Sincerely,

John Seiberling

John F. Seiberling

Dick Ottinger

Richard L. Ottinger

Tom Downey

Butler Derrick

Bruce F. Vento

Pete Stark

Ned Pattison

Elizabeth Holtzman

Max Baucus

Harold L. Volkmer

Phillip Burton

Yvonne Burke

Parren J. Mitchell

John E. Moss

Jack F. Kemp

Jonathan B. Bingham

Christopher J. Dodd

Fred Richmond

Robert Drinan

Teno Roncalio

Adam Benjamin, Jr.

Sidney R. Yates

Nick Rahall

John Burton

Bill Frenzel

Newton I. Steers, Jr.

Leon Panetta

Robert J. Cornell

James Oberstar

Don Fraser

Mario Biaggi

Henry J. Nowak

Joseph G. Minish

Frank Thompson, Jr.

Bob Kastenmeier

Leo J. Ryan

Mike Blouin

Herbert Harris

Hamilton Fish, Jr.

Joseph A. Le Fante

Peter W. Rodino, Jr.

Fernand J. St. Germain

Edward P. Beard

Harold Ford

James A. Mattox

William Brodhead

Douglas Walgren

William Clay

John Krebs

Michael Harrington

Neal Smith

George E. Brown, Jr.

Jerry M. Patterson

Dan Glickman

Pat Schroeder

John M. Murphy

Bill Lehman

Donald J. Pease

Abner J. Mikva

Bill Hughes

Norman D'Amours

Richard Nolan

Ronald V. Dellums

Louis B. Stokes

James H. Scheuer

Douglas Applegate

Helen Meyner

Anthony C. Beilenson

Ed Markey

Dante B. Fascell

Bob Traxler

Jim Lloyd

Mary Rose Oakar

Ron Mottl

Jim J. Florio

Harold C. Hollenbeck

Robert N. C. Nix

David L. Cornwell

Don Edwards

Alvin Baldus

Jim Weaver

George Miller

Barbara A. Mikulski

Gerry E. Studds

Timothy E. Wirth

Richard A. Gephardt

Norman Mineta

Albert Gore, Jr.

Dave Evans

Dale E. Kildee

Tom Harkin

Peter H. Kostmayer

Matthew F. McHugh

Berkley Bedell

Steve Neal

Paul E. Tsongas

Andy Maguire

Ted Weiss

James Jeffords

Les Aspin

Bob Carr

10:45 AM

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

December 1, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: BARRY JAGODA B.J.

SUBJECT: Ceremony in the Oval Office
Friday, December 2, 10:45 am

Here is a summary of the scenario in which you instruct the Shippingport Atomic Power Station LWBR to be taken to full power and turned over for normal commercial use:

1. You walk into the Oval Office (wearing a microphone that will be put on just before you enter) to be greeted by Admiral Rickover and Secretary Schlesinger. After brief remarks from the Admiral you proceed to an electronic blackboard and, using regular chalk, firmly write: "INCREASE LIGHT WATER BREEDER REACTOR POWER TO 100%. JIMMY CARTER" The Shippingport Station Manager will acknowledge (via speakers in the Oval Office) that they have your instructions.

2. Then join Rickover and Schlesinger at two gauges which will be tracking the increase in power from 90% to 100%. The Admiral will talk about the Shippingport plant and Dr. Schlesinger may choose to join in at an appropriate time. After a few minutes, Admiral Rickover will call on Robert Kirby, Chairman of Westinghouse Electric, who will indicate that the reactor is up to full power. You should acknowledge this information and you may want to suggest that this is a good example of industry and government working together. Then John Arthur, of the local power company, will indicate that he expects reliable performance from the reactor. (Both these gentlemen will be in Shippingport and their voices will come in on a speaker.)

3. After Mr. Arthur speaks, you should acknowledge that the LWBR will be an important safe part of our energy program and take note of the 35th anniversary of the first sustained chain reaction and the 20th anniversary of the initial criticality of the Shippingport Station, the nation's first central station nuclear power plant. One minute or so of suggested remarks attached.

4. There will be full press coverage from the time you enter the Oval Office. The whole event should take about 10 minutes.

# # # # # # # # #

President's Portion of Shippingport Remarks:

The President: "Thank you, Mr. Kirby. This shows what can be achieved when government and industry work together.

Mr. Arthur: "Mr. President, this is John Arthur. Based on our experience during the recent checkout phase of the Shippingport Light Water Breeder Reactor, Duquesne Light Company anticipates reliable performance from it. Also, the reactor will be important to us in providing electricity to our half million customers in the Pittsburgh area."

The President: "Thank you, Mr. Arthur. The work that all of you are doing up there will help our uranium reserves go much further in meeting the country's energy needs over the years to come. I want you to know how much I appreciate it.

"Today is a particularly noteworthy day in the history of nuclear power. On December second of 1942, thirty-five years ago, the first sustained chain reaction in history took place at Stagg Field in Chicago. And on December second of 1957, the Shippingport Atomic Power Station first achieved a self-sustaining chain reaction. Since that time, you've had 20 years of safe operation. I'm glad that the testing and checkout of the new light water breeder core went so well, and I hereby release the reactor for normal operational use on the commercial electric power grid."

9:30 A.M.

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

C

December 1, 1977

MEETING WITH HOUSE ENERGY DELEGATION
Friday, December 2, 1977
9:30 a.m. (20 minutes)
Cabinet Room

From: Frank Moore FM/pd

I. PURPOSE

To discuss their common concerns with the House energy conference.

II. BACKGROUND, PARTICIPANTS, AND PRESS PLAN

Background: These Members are mostly liberals with some moderates in the group sharing the same concern that the energy conference is going to compromise at the expense of the consumer; giving too much to the big gas and oil industry. The Members met on Thursday, December 1 at 1 p.m. to discuss the following concerns:

**Natural Gas-$1.75 has become an article of faith. It was the consensus of the meeting that the House Conferees should have latitude to maneuver with the definition of new gas and the category of hard-to-get gas which would be given the $1.75 price, but that they should hold firm on the $1.75 cap.

**Crude Oil Equalization Tax (COET)-Regarding COET; it was the consensus of the meeting that the House Conferees should stand solidly behind the House version of COET, i.e., that the 1978 receipts should be rebated and the receipts after 1978 should wait on tax reform or to a final disposition to be determined next year.

**Trust Fund-The Members know that Senator Long is trying to buy off individual groups of Members by subsidizing their favorite energy sources with trust-fund goodies. The essential point is that by telling Long that support of the left is wavering each time a trust fund is discussed, Mr. Ashley may have a weapon with which to get Senator Long to be reasonable. At the same time, the eventual need to accept some form of trust fund may be used by the House Conferees to keep some of the left on board as their own favorite solution to the energy crisis is funded. In any event, there appears to be dialogue among the leading Conferees and the liberals as the stakes of the game come clearer into focus.

Many Members who talked to Congressional Liaison staff after the meeting commented that what really was happening is that Members have become politically scared of imposing any kind of tax in the energy bill that would raise the prices for the consumer. The House Members realize that they have to run for election next year and are politically scared about what effect the final energy bill will have on their elections.

Participants: See attached list.

Press Plan: White House Photographer.

III. TALKING POINTS

***This is the final opportunity for the Congress and the Administration to exercise leadership and address the most serious problem we have had the courage to face this year.

***The House, with your help, passed a good bill earlier this year.

***The Conferees have completed a significant portion of the task. They have made compromises in order to reach agreement.

***I wish we could have had some stronger utility rate provisions, but we have made a good start. We need to continue in that spirit and finish the process.

***Finally, this is a matter for the House and Senate to work out--when the Conferees reach an impass and ask for help in resolving their disagreement, I will do everything in my power to work toward a resolution consistant with the NEP.

Participants
December 2, 1977

The President
Frank Moore
Jim Free
Bill Cable

MEMBERS	SUPPORT %AGE
Toby Moffett (D-6-Conn)	87.5
Pete Stark (D-9-Calif)	87.5
Bob Carr (D-6-Mich)	79.4
Matt McHugh(D-27-N.Y.)	92.9
Ab Mikva (D-10-Ill)	86.7
Steve Solarz (D-13-N.Y.)	87.5
Leon Panetta (D-16-Calif)	75.8
Edward Markey (D-7-Mass)	85.3
Gerry Studds (D-12-Mass)	84.8
John Cavanaugh (D-2-Nebr)	78.8
David Bonior (D-12-Mich)	76.5
Al Gore (D-4-Tenn)	67.6
Jim Weaver (D-4-Oregon)	82.1
Jerry Ambro (D-3-N.Y.)	84.8
Herb Harris (D-8-Va)	76.5
Mike Blouin (D-2-Iowa)	79.4
John Seiberling (D-14-Ohio)	93.5
Dale Kildee (D-7-Mich)	75.8
Don Edwards (D-10-Calif)	94.1
Harold Volkmer (D-9-Mo)	73.5
Donald Fraser (D-5-Minn)	93.1
Edward Pattison (D-29-N.Y.)	91.2
Dick Ottinger (D-24-N.Y.)	85.3
Doug Walgren (D-18-Pa)	65.6
Don Bonker (D-3-Wash)	87.9
Tony Beilenson (D-23-Calif)	83.9
Jerry Patterson (D-38-Calif)	82.8
Donald Pease (D-13-Ohio)	85.3
Tim Wirth (D-2-Colo)	77.4
Dick Gephardt (D-3-Mo)	73.5
Norman Mineta (D-13-Calif)	86.7
Bruce Vento (D-4-Minn)	85.3
Parren Mitchell (D-7-Md)	93.3
Bob Eckhardt (D-8-Texas)	95.3

As a group, these Members have voted with the Administration 83.3% of the time and have almost universally supported us on critical energy floor votes.

THE WHITE HOUSE

WASHINGTON

December 1, 1977

MEETING WITH HOUSE ENERGY DELEGATION
Friday, December 2, 1977
9:30 a.m. (20 minutes)
Cabinet Room

From: Frank Moore

I. PURPOSE

To discuss their common concerns with the House energy conference.

II. BACKGROUND, PARTICIPANTS, AND PRESS PLAN

Background: These Members are mostly liberals with some moderates in the group sharing the same concern that the energy conference is going to compromise at the expense of the consumer; giving too much to the big gas and oil industry. The Members met on Thursday, December 1 at 1 p.m. to discuss the following concerns:

**Natural Gas-$1.75 has become an article of faith. It was the consensus of the meeting that the House Conferees should have latitude to maneuver with the definition of new gas and the category of hard-to-get gas which would be given the $1.75 price, but that they should hold firm on the $1.75 cap.

**Crude Oil Equalization Tax (COET)-Regarding COET; it was the consensus of the meeting that the House Conferees should stand solidly behind the House version of COET, i.e., that the 1978 receipts should be rebated and the receipts after 1978 should wait on tax reform or to a final disposition to be determined next year.

**Trust Fund-The Members know that Senator Long is trying to buy off individual groups of Members by subsidizing their favorite energy sources with trust-fund goodies. The essential point is that by telling Long that support of the left is wavering each time a trust fund is discussed, Mr. Ashley may have a weapon with which to get Senator Long to be reasonable. At the same time, the eventual need to accept some form of trust fund may be used by the House Conferees to keep some of the left on board as their own favorite solution to the energy crisis is funded. In any event, there appears to be dialogue among the leading Conferees and the liberals as the stakes of the game come clearer into focus.

Many Members who talked to Congressional Liaison staff after the meeting commented that what really was happening is that Members have become politically scared of imposing any kind of tax in the energy bill that would raise the prices for the consumer. The House Members realize that they have to run for election next year and are politically scared about what effect the final energy bill will have on their elections.

Participants: See attached list.

Press Plan: White House Photographer.

III. TALKING POINTS

***This is the final opportunity for the Congress and the Administration to exercise leadership and address the most serious problem we have had the courage to face this year.

***The House, with your help, passed a good bill earlier this year.

***The Conferees have completed a significant portion of the task. They have made compromises in order to reach agreement.

***I wish we could have had some stronger utility rate provisions, but we have made a good start. We need to continue in that spirit and finish the process.

***Finally, this is a matter for the House and Senate to work out--when the Conferees reach an impasse and ask for help in resolving their disagreement, I will do everything in my power to work toward a resolution consistant with the NEP.

Participants
December 2, 1977

The President
Frank Moore
Jim Free
Bill Cable

Toby Moffett (D-6-Conn)
Pete Stark (D-9-Calif)
Bob Carr (D-6-Mich)
Matt McHugh(D-27-N.Y.)
Ab Mikva (D-10-Ill)
Steve Solarz (D-13-N.Y.)
Leon Panetta (D-16-Calif)
Edward Markey (D-7-Mass)
Gerry Studds (D-12-Mass)
John Cavanaugh (D-2-Nebr)
David Bonior (D-12-Mich)
Al Gore (D-4-Tenn)
Jim Weaver (D-4-Oregon)
Jerry Ambro (D-3-N.Y.)
Herb Harris (D-8-Va)
Mike Blouin (D-2-Iowa)
John Seiberling (D-14-Ohio)
Dale Kildee (D-7-Mich)
Don Edwards (D-10-Calif)
Harold Volkmer (D-9-Mo)
Donald Fraser (D-5-Minn)
Edward Pattison (D-29-N.Y.)
Dick Ottinger (D-24-N.Y.)
Doug Walgren (D-18-Pa)
Don Bonker (D-3-Wash)
Tony Beilenson (D-23-Calif)
Jerry Patterson (D-38-Calif)
Donald Pease (D-13-Ohio)
Tim Wirth (D-2-Colo)
Dick Gephardt (D-3-Mo)
Norman Mineta (D-13-Calif)
Bruce Vento (D-4-Minn)
Parren Mitchell (D-7-Md)
Bob Eckhardt (D-8-Texas)

THE WHITE HOUSE

WASHINGTON

December 2, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: HUGH CARTER

SUBJECT: Weekly Mail Report (Per Your Request)

Below are statistics on Presidential and First Family:

INCOMING	WEEK ENDING 11/25	WEEK ENDING 12/2
Presidential	33,890	29,650
First Lady	1,380	2,480
Amy	385	490
Other First Family	70	70
TOTAL	35,725	32,690
BACKLOG		
Presidential	11,650	3,330
First Lady	150	510
Amy	0	0
Other	0	0
TOTAL	11,800	3,840
DISTRIBUTION OF PRESIDENTIAL MAIL ANALYZED		
Agency Referrals	48%	48%
WH Correspondence	18%	21%
Direct File	21%	17%
White House Staff	4%	4%
Other	9%	10%
TOTAL	100%	100%
NOT INCLUDED ABOVE		
Form Letters and Post Cards	25,585	8,479
Mail Addressed to WH Staff	13,789	13,799

cc: Senior Staff

MAJOR ISSUES IN
CURRENT PRESIDENTIAL ADULT MAIL
Week Ending 12/2/77

ISSUES	PRO	CON	COMMENT ONLY	NUMBER OF LETTERS
Support for U.S. Aid to Alleviate World Hunger	100%	0	0	4,211
Support for the E.R.A. and the I.W.Y. Conference (1)	7%	93%	0	1,211
Support for Returning the Crown of St. Stephen to Hungary	0	100%	0	1,029
Support for Tuition Relief Tax Credit S.834, H.R. 3403	100%	0	0	869
Support for H.E.W.'s Proposed National Guidelines for Hospitals	1%	99%	0	789
Support for Palestine Liberation Organization Representation at Peace Talks	8%	89%	3%	659
Support for Tougher Restrictions on Steel Imports	98%	2%	0	591
Support for National Health Care Kennedy-Corman Bill S.3, H.R.21	93%	7%	0	431
Support for Panama Canal Treaties	17%	78%	5%	311
Support for Administration's Energy Act, Including Continued Regulation of Natural Gas	28%	39%	33%	187
			TOTAL	10,288

(See Note Attached)

NOTE TO MAJOR ISSUE TALLY

(1) SUPPORT FOR THE E.R.A. AND THE I.W.Y CONFERENCE (93% Con)

The content of the mail is multifaceted, with writers from all over the country making the following major points:

- the International Women's Year Conference was a waste of taxpayers' money, and no more funds should be appropriated;
- the First Lady should not have attended the conference;
- anti-abortion spokespersons were not given equal time at the conference;
- an extension of the deadline for state action on the Equal Rights Amendment should not be granted;
- and homosexuals should not be permitted to teach in public schools.

THE PRESIDENT HAS SEEN.

THE WHITE HOUSE

WASHINGTON

2 December 1977

C

MEMORANDUM FOR THE PRESIDENT

FROM: RICK HUTCHESON R.H.

SUBJECT: Status of Presidential Requests
(Complete Monthly Listing)

EIZENSTAT:

1. (2/16) Prepare a draft message to Congress on the opportunity for regulatory reform -- In Progress, (rather than a message, a memo on possible 1978 regulatory initiatives is being prepared, expected 121/9).
2. (8/5) The President would like a study done to determine if the curriculum at the service acadamies can/should be more narrowly focused on their future careers -- In Progress.
3. (8/17) We can issue guidelines from the President regarding new gift policy for foreign gifts; prepare draft -- Done. done
4. (11/4) What can be done administratively about the amendment to Environmental Community of Exempting Federally Sponsored Projects in Wetlands for Obtaining Permits from the Corps of Engineers? -- In Progress, (expected 12/7, previously expected 11/22).
5. (11/18) The President does not want any extensions after this of S. 1184, The Fisherman's Protective Act Extension; notify Secretary Kreps -- Message Conveyed to Kreps. done
6. (11/23) Submit speech outline for 12/4 meeting of the Business Council -- Done. done
7. (11/28) Discuss with Jay Solomon the increasing number of space requests from the agencies and surplus land and property which will come to GSA as a result of DoD base closing -- In Progress, (to be done by 12/9).
8. (11/28) Comment on the Lipshutz memo concerning the Executive Order establishing the Anti-Trust Review Commission -- Done. done

9. (11/30) You, Tony Solomon and others work out the differences on the EPG Task Force Report on Steel, then submit to the President -- Done. done

JORDAN:

1. (2/25) Let's firm up the Renegotiation Board -- In Progress, (no further Congressional action expected; most probably dead).

2. (8/4) (First Lady) Comment on 8/2 memo from Jordan concerning two vacancies on Advisory Council on Historical Preservation -- In Progress, (the First Lady's recommendation of Joseph Mahan is being processed to fill a 2/78 vacancy, pending a security check). (9/29) Put Calvin Carter (or his wife Pat) on the Historical Preservation Board -- In Progress, (to fill current vacancy, pending a security check; nomination document expected by 12/16).

3. (9/12) (Butler) What has been/can be done regarding a job for Don Cox of Kentucky? -- In Progress, (with HUD; 11/23 interview in Counsel's office went well for position in Housing area. Ruth Prokoff is planning to get back with Cox by 12/9 with a specific offer.)

MCINTYRE:

1. (7/11) Our emergency loan/grant criteria are too lax; check with Secretary Bergland -- In Progress. (In my 8/12 memo, I reported to you OMB's response -- that an interagency working group was preparing an options paper as part of the '79 budget review, expected 10/15. In my 10/14 memo to you, I reported OMB's revised deadline -- that your question would be dealt with in the December budget meetings. This week, OMB reports that a response is now expected in February, in conjunction with the disaster agencies reorganization project. Letters have been drafted asking for agency reactions to your question, but it appears that little else has been done in response to your request.)

SCHULTZE:

1. (8/24) Go ahead and prepare the economic impact statement for the President concerning the Senate Finance Committee proposal on Social Security financing and the statement to be given to Senator Long -- Done. (I am told that Schultze discussed this with you in his Friday meeting, reporting that the crucial variable is the size of a 1978 tax cut. Schultze considers work completed on this done

item, subject to a request from you for more information.

BRZEZINSKI:

1. (7/28) Assess briefly the number of federal employees abroad, the current number seems excessive. (7/30) O.K. -- The President's concern is the large number of non-State Department personnel in our embassies -- In Progress, (with OMB and State, to be discussed at Budget Review Session on International Affairs 12/5).

2. (11/18) Assess the invitation from Adm. Rickover regarding USS Dwight D. Eisenhower to conduct flight operations in Roosevelt Roads operating area -- Done. done

3. (11/28) (and H. Brown) Set up another meeting with the Joint Chiefs of Staff for their frank assessment of how well we are consulting with them on defense matters and if they need better briefing on political/strategic matters. We can also discuss specific objections to SALT, CT, BMFR, etc. -- Done. done

4. (11/28) (H. Brown) Brief comment regarding information sheet on U.S. Air Force concerning significant opportunity to conserve male manpower which may exist in the Air Force/Brookings Institute study -- Done. done

LIPSHUTZ:

1. (11/28) (Confidential) Discuss with the Vice President and Cy Vance the possible executive privilege question arising between the Treasury Department and Ben Rosenthal -- Done, (11/30). done

KRAFT:

1. (11/17) (and Jordan) Comment on the Ken Curtis/Joel McCleary memo concerning New York fundraiser in May 1978 -- Done. done

2. (11/18) Set up 12/2 ceremony for the President to direct from the White House an increase in power from Light Water Breeder Reactor at Shippingport, and announce that the reactor is available for unrestricted use on commercial power grid -- Done. done

FALLOWS:

1. (11/23) Abbreviate and resubmit the speechwriting memo on Monday -- Done. done

WARREN:

1. (11/21) Submit directly to the President 4 or 5 names of strong persons for Assistant Secretary for Environment, DOE -- Done. done

PRESS:

1. (11/28) Assess the information paper on Government Patent Policy -- In Progress, (expected 12/6).

VICE PRESIDENT:

1. (11/28) Set up a one hour meeting this week to go over the options of the 1978 Agenda -- Done. done

SCHLESINGER:

1. (8/22) (and Stu) Begin preparing for action regarding options to reduce oil imports -- In Progress, (according to Secretary Schlesinger, he told the President in the 11/19 meeting that the oil impact analysis would be ready in approximately 2 weeks; DOE now expects to have completed the memo by 12/8).

2. (11/28) Give the President a one-page summary of wood use and potential; the best type home/commercial wood burners and R&D program regarding wood as an energy source -- In Progress, (expected 12/6).

HARRIS:

1. (8/11) Push this; work with Lehman, Pepper, Stone, Childs and condominium groups regarding condominium recreation leases -- In Progress, (HUD's condominium reform proposal was received by the White House 10/19, and was referred to OMB for normal interagency review. In light of agency comments, the proposal was returned to HUD this week for further work. Undersecretary Jay Janis says that HUD will be ready to resubmit the proposal to OMB by 12/16).

ADAMS:

1. (8/22) Keep the President informed about Amtrak heavy rail repair facility -- Done. done

CALIFANO:

1. (11/28) The President believes we need some national standard education achievement test to be used only optionally when states and/or local school systems want them. How do you suggest we do this -- through HEW or the National Science Foundation? -- Done. done

RAFSHOON:

1. (9/13) Proceed with plans regarding National Arts Festival; then see the President before final commitment -- In Progress, (feasibility study underway, expected for the President's review 2/78).

THE WHITE HOUSE

WASHINGTON

	FOR STAFFING
	FOR INFORMATION
/	FROM PRESIDENT'S OUTBOX
	LOG IN/TO PRESIDENT TODAY
	IMMEDIATE TURNAROUND

ACTION	FYI	
		MONDALE
		COSTANZA
		EIZENSTAT
		JORDAN
		LIPSHUTZ
		MOORE
		POWELL
		WATSON
		LANCE
		SCHULTZE

		ENROLLED BILL
		AGENCY REPORT
		CAB DECISION
		EXECUTIVE ORDER

Comments due to Carp/Huron within 48 hours; due to Staff Secretary next day

		ARAGON
		BOURNE
		BRZEZINSKI
		BUTLER
		CARP
		H. CARTER
	/	CLOUGH
		FALLOWS
		FIRST LADY
		HARDEN
	/	HUTCHESON
		JAGODA
		KING

		KRAFT
		LINDER
		MITCHELL
		MOE
		PETERSON
		PETTIGREW
		POSTON
		PRESS
		SCHLESINGER
		SCHNEIDERS
		STRAUSS
		VOORDE
		WARREN

THE WHITE HOUSE
WASHINGTON

rick--

please send me
copy of attached

thanks -- susan

THE WHITE HOUSE
WASHINGTON

December 2, 1977

Anthony Solomon
Stu Eizenstat

The attached was returned in the President's outbox. It is forwarded to you for appropriate handling.

Rick Hutcheson

STEEL TASK FORCE

THE PRESIDENT HAS SEEN.

a) We should state That pollution standard will not be lowered
b) Tax measures will be "Considered" to encourage modernization

THE UNDER SECRETARY OF THE TREASURY
FOR MONETARY AFFAIRS
WASHINGTON, D.C. 20220

December 1, 1977

MEMORANDUM TO: THE PRESIDENT

FROM: Anthony Solomon ams

SUBJECT: Summary of Steel Task Force Report

The steel task force report consists of three major sections:

-- an introduction which provides a background on those problems of the steel industry which are addressed by the report;

-- an outline of the general objectives which guided the task force in developing the program; and

-- a five-part program which is responsive to problems in those areas where government policies impact upon the industry.

The program proposals are grouped into major areas of: (1) relief from unfair trade practices; (2) modernization of plant; (3) rationalizing environmental practices and policies; (4) community and labor assistance programs; and (5) other general measures.

1. Relief from Unfair Trade Practices

A "trigger-price" antidumping procedure is proposed to deal with complaints of steel imports at prices below home market prices or costs of production that injure the U.S. industry.

The trigger-price is to be established for each class of steel mill product based on production costs of the world's most efficient producer (currently Japan).

-- The use of trigger price to initiate proceedings will accelerate the identification and prevention of dumping.

-- The system is consistent with U.S. law and the GATT.

-- It will not deny to any affected person rights to initiate or contest proceedings on findings under the Antidumping Act.

2. Modernization of Plant

-- The general tax measures of the Administration's tax reform proposal will emphasize incentives for modernization. ?

-- IRS will be asked to investigate the appropriateness of shortening useful lives of capital goods for tax depreciation from 18 to 15 years.

-- Additional funds will be made available for loan guarantees for modernization under existing programs.

3. Rationalizing Environmental Policies and Practices

-- A review of EPA regulatory procedures will be undertaken to reduce rigidities and inconsistencies. ?

-- The access of the industry to EPA for discussions with respect to specific policies will be expanded. ?

-- There will be a reexamination of other policies (e.g. offset policies -- the transfer of air pollution credits from one facility to another).

4. Community and Labor Assistance

-- The loan guarantee programs for modernization under section (2) will be geared to plants located in areas of high unemployment.

-- Existing EDA funds will be made available to combat unemployment in severely impacted steel communities.

-- A task force will be established to examine alternative uses for closed steel plants.

-- Consideration will be given to economically viable proposals for community and/or worker takeover of previously closed plants.

5. Other General Measures

-- Requests for business reviews of joint ventures for research and development and mergers will be expedited by Justice.

-- A government review of Federal funding of industry research and development will examine the merits of greater assistance to the steel industry -- particularly in regard to energy and the environment.

-- A task force will examine regulatory and other factors which lead to high transportation costs for industries processing bulk materials.

-- A tripartite committee of business, labor, and government will be established to continue a dialogue on issues of common concern.

These measures will provide a basis for the industry through its own efforts, and the cooperation of labor, to regain a strong competitive position in the domestic economy.

THE PRESIDENT HAS SEEN.

To Stu & Tony
JC

THE WHITE HOUSE

WASHINGTON

December 1, 1977

MEMORANDUM FOR THE PRESIDENT

FROM: STU EIZENSTAT Stu

SUBJECT: Meeting on Task Force Report on Steel

I thought before you read the final steel report you might want to know the results of the lengthy inter-agency meeting which we convened to review the outstanding questions on the Solomon Steel Report.

I. REFERENCE PRICE SYSTEM

1. Time Length - We had a discussion about the length of time during which the reference price system would last since this was not mentioned in the initial summary. There was a clear consensus that the report should make clear that while there is no set deadline on the reference price system, that it was intended to be temporary and would be reviewed periodically to determine its effectiveness and in light of changing circumstances. I agree

2. Dropping Anti-Dumping Cases - The question here was whether we should seek specific assurances from the major steel companies to drop their pending anti-dumping cases and to forego filing ones that are now in the process of being prepared. The Justice Department felt strongly that no such assurances can be asked on legal grounds. Companies could not be asked to forego their legal rights in return for this system. However, presumably the course taken by the industry on anti-dumping suits would be a factor in the Treasury's determination as to the length of time the price should be maintained. Tony Solomon has implied to them, as strongly as he can within legal bounds, that the Administration cannot be expected to simultaneously pursue this "fast-track" reference price system and the more laborious investigation of anti-dumping actions. good

3. Legal Issues Regarding Reference Price - There are essentially two legal issues involved, which the Department of Justice had not had the opportunity previously to explore. First was the authority of the Secretary of the Treasury to self-initiate a dumping investigation, which is a key ingredient in this fast-track reference price proposal. While the Justice Department does not yet have a formal opinion, the Assistant Attorney General for the Office of Legal Counsel indicated that he thinks (as does the Treasury Department) that a strong case can be made that the Secretary does have such authority. He will be able to give a favorable formal legal opinion next week.

The second major legal issue regarding the reference price is whether it is violative of the antitrust laws. The Assistant Attorney General for Antitrust, who was at the meeting, indicated that the reference price system, in its general concept, could probably sustain legal challenge, although there might be some judges who would call this an illegal parallel pricing agreement by industry. He made it clear that he could not give a better opinion at this time until he saw the actual numbers which would be used for setting the reference price. The actual reference price will not be available for several months.

Be careful about this

4. Limitation to Steel Industry - The question here was whether or not the reference price system would have to be extended on equity grounds to other industries. Dick Cooper made it clear that if other industries fit the criteria he would have no objection to their applicability to other industries. Treasury maintained, seemingly to the satisfaction to the group, that a strong case could be made that there are unique circumstances here, both due to injury involved to the steel industry from imports and the large number of anti-dumping cases which are straining Treasury's resources. Thus, this reference price system is merely an administrative method of expediting the handling of these cases, which are largely concentrated in the steel industry.

Temporary nature of reference price can help here

5. Multilateral Discussions - As you are aware, STR had raised the issue of including in the report and the announcement an indication that multilateral solutions would continue to be sought to steel trade problems. Treasury and Charlie Schultze felt strongly that no language should be included which implied multilateral negotiations would be forthcoming toward an agreement. A compromise was reached where language would be used favoring the need for continued consultations on a multilateral basis.

ok

6. Inflation Impact - I raised the question of whether the inflation impact for this program could be known at this time, before the actual reference price was set. Charlie Schultze indicated that it could not be known but that this reference price system would be less inflationary than the other major options -- quantitative restrictions on steel imports or allowing the massive number of anti-dumping suits to proceed.

7. Quid-Pro-Quo On Price-Wage Behavior - This was one of the most disappointing parts of the meeting for me. Treasury felt quite strongly that if we attempt to tie this program to wage and price moderation that the industry would balk and simply continue to file anti-dumping cases. The most we could get agreement on was that the report would reference the fact that the steel industry's problems were not solely due to imports but that costs were also a factor and some very general language would be put in about costs. In addition, the statement will be made that it is the hope of the Administration that the reference price system will be used for increased production, with the implication that it should not be used for price increases (although Charlie Schultze feels that the industry will use this to increase their profit margins). Barry Bosworth pointed out that since the reference price is based on the cheapest foreign production costs, there is a built-in pressure on price restraint.

Business-Labor-Gov't task force should address productivity question

8. Shift to Fabricated Products - In its memo STR raised the concern that since the reference price would not apply to certain steel imports, such as carbon steel plate and fabricated steel products, foreign governments would simply shift their imports to these lines. It was agreed that a general statement would be made in the report concerning a monitoring effort by Customs on such products.

9. Exchange Rates - OMB in its memo had raised the question of whether the recent changes in exchange rates may reduce the need for industry protection. It was felt that the reference price system was still needed but that exchange rates would be one of the factors that would be reviewed when the reference price was evaluated.

Don't eliminate this factor

10. Fixing the Reference Prices - After the meeting, Tony Solomon indicated that he had reasonable confidence in the ability of Treasury to fix the "right" level of reference prices. They will use data developed by COWPS in their study of the steel industry.

Consult, let me see ref. price & comments

II. DOMESTIC PROPOSALS

1. Reduction in Guideline Life - Questions had been raised about reducing the guideline life of steel equipment from its current level of 18 years to 15 years. You had questioned its impact on other heavy industry in your note. Treasury mentioned the following:

a.) This report would merely recommend that the IRS study the possibility of reducing guideline life.

b.) Different industries now had different useful lives for their equipment so that there would not be an impact on other industries by changes here.

c.) Reasonable assurances of modernization by the industry would help give a justification for reducing the guideline life.

2. EDA Revolving Fund of $215 million - As you are aware, OMB had significant problems with the use of a revolving fund since they correctly believe that this is contrary to good budget management and simply guarantees continuing loan guarantees with little oversight. Indeed, OMB in 1973 essentially stopped the use of this revolving fund. After a good deal of discussion it was agreed that the report would simply mention, without a dollar figure, the general use of EDA loan guarantee authority. This would permit the use of existing authority and the regular appropriations process, rather than a revolving fund.

Loans should be sound

good

3. Joint Venture-Merger Guidelines - Treasury has accepted the revised language which has been drafted by the Antitrust Division of the Justice Department. There are now no disagreements in this area.

4. Tripartite Committee - You had questioned this. This had been suggested by the Department of Labor. Barry Bosworth was not terribly favorable to it but no one had strong objections. Tony Solomon made an excellent point that since his draft report has leaked with this recommended committee in it, it might seem odd to pull back on such an innocuous recommendation.

5. Other Points - You also had question marks by several of the recommendations on community and labor assistance. The $20 million from EDA is for planning grants to combat unemployment in the affected steel communities and is generally consistent with our recommendations in the trade adjustment assistance area. The recommendation regarding communities and/or worker takeover of abandoned steel facilities is merely a commitment to evaluate the results of a study proposed by certain Church groups in Youngstown and involves no commitments of funds by the Task Force. good

III. TIMING OF RELEASE

Treasury would like to release it tomorrow because of their fear of further leaks. However, most of the substantive information is unfortunately already in the papers and if you feel that a few extra days is necessary, Tony Solomon believes it would not be a tragedy to release it Monday or Tuesday.

Tony has indicated that he has consulted widely with Congress, although, of course, he has not been able to give them the final results for the report. I have talked to Frank Moore about congressional consultations. A release early next week would allow for more time for Congressional briefings. Frank indicated that if he knows in the morning that you have approved the report, he could get together at least a small group of the steel caucus (most Congressmen are out of town at this point and will be back Tuesday) for a pre-press conference briefing around 1:00. He could get a larger group together Tuesday, when the House comes back in session.

Jack Watson and I believe releasing it early next week will give everyone a chance to review the final report, which no one will have seen until tomorrow morning. We feel there is little to lose by a few extra days delay and much that can be gained by a careful review of the report.

Fri, Sat, Mon or Tues ok c me

If ready Fri afternoon, go ahead - I have no preference
J

Press release should emphasize
a) Minimum inflation impact
b) No violation of anti-trust laws
c) Pollution standards upheld
d) Budget impact small
e) Modernization/productivity
f) Maintains competitive market forces

THE PRESIDENT HAS SEEN.

Stu - after
Return your conference
J

THE SECRETARY OF THE TREASURY
WASHINGTON

NOV 23 1977

MEMORANDUM FOR THE PRESIDENT

Subject: Summary of EPG Task Force Report on Steel

Attached is a relatively short but comprehensive summary of Tony Solomon's steel task force package of international and domestic recommendations. EPG members -- Charlie Schultze, Jim McIntyre, Dick Cooper, Bob Strauss, Juanita Kreps and Ray Marshall -- have received periodic briefings on development of the recommendations and related negotiations and have now given clearance on the package for submission to you for decision.

You have set an end-of November deadline for a public Report from the task force. If you give us your decisions on this summary by Monday, November 28, the task force can bring out the Report, reflecting those decisions, on schedule.

In addition to your substantive decisions, we need your instructions as to

- whether the task force Report should in fact be made public (it would be difficult to avoid)
- and whether you wish to announce your position coincident with the Report's release or several days thereafter.

As you instructed, the task force has put together a carefully balanced package of measures dealing with both the international and domestic aspects of the steel problem. After long discussions, the relevant domestic and international interests have accepted the general outlines of the package. (No details have been given to anyone outside the government.) However, if major elements of the package are substantially altered, this delicate consensus may not hold.

Mike

W. Michael Blumenthal

REPORT FOR THE PRESIDENT
FROM
ANTHONY SOLOMON
CHAIRMAN OF THE SPECIAL TASK FORCE

The task force recommendations I am submitting to you are directed toward the attainment of three goals:

-- promoting a healthy, competitive domestic steel industry;

-- ameliorating the serious economic and social effects of steel plant closings and cutbacks on laidoff steelworkers and steel communities; and

-- relieving the industry from the pressures of imports below foreign costs without removing the healthy price discipline provided by fair import competition.

The program of recommendations requires no special legislation. The key industry representatives, the United Steelworkers' leadership, and our major foreign trading partners, EC and Japan, have all finally expressed after considerable discussion support in principle for the program. My Congressional briefings on the possible general shape of the program have gone very well (Senator Byrd, House Steel Caucus, key members of Senate Steel Caucus, the Vanik Ways and Means Trade Subcommittee). I expect to see Chairman Long and the Ribicoff Senate Finance Trade Subcommittee as well as meet with the House and Senate Steel Caucuses again.

The program of recommendations are divided into five categories or problem areas:

I. Trade Relief;

II. Modernization:

III. Rationalizing Environmental Policy and Procedures;

IV. Community and Labor Assistance; and

V. Other General Measures.

With respect to the trade relief procedure recommended, the U.S. importers will not be happy although they admit that this is less objectionable than a do-nothing policy under which the present massive anti-dumping cases will result in major disruptive cuts in imports. We should expect that as in the past there will be a court challenge from some group but our Counsel believes we have a strong defensible case.

I. Trade Relief -- Triggering Price "Fast Track" Antidumping System

Steel imports are currently accounting for about 20% of domestic consumption. The industry contends this level of penetration is due largely to unfair trade practices. The industry is pressing for protection against unfair trade practices, particularly from dumping. It claims that if trade is fair it can compete with imports to the U.S. market.

Recommendation: The Department of Treasury, in administering the Antidumping Act, will set a Triggering Price for initiating antidumping investigations for steel mill products imported into the U.S.

The Triggering Price permits Treasury to organize its resources so it can take accelerated action to remedy unfair trading practices relating to steel products. It does not detract from any of the legal rights that foreign producers or the domestic steel industry presently enjoy under the Antidumping Act. However, the success of the Triggering Price approach in dealing with the steel problem will depend to a considerable extent on the domestic industry's restraint in bringing new antidumping petitions and its willingness to withdraw existing petitions. The industry understands this point and will act responsibly if the approach appears to have a good chance of working.

- The Triggering Price will be set by Treasury within 5% of the full cost of production plus transportation of the most efficient producers, currently the Japanese steel industry. It will be reviewed quarterly. The 5% flexibility recognizes the complexities of administering a system which seeks to remedy injury from unfair trade practices of foreign producers without shutting out appropriate price competition from them.

- The Triggering Price would be applied universally to all steel imports.

-- Imports would be closely monitored by the U.S. Customs Service.

- Substantial sales under the Triggering Price would result in expedited Treasury investigations and accelerated application of appropriate remedies, including possible retroactive application of antidumping duties.

The Triggering Price and its associated fast track remedial procedures can be instituted within 60 days, and is consistent with existing law and with our international obligations.

The Triggering Price technique should result in substantial elimination of the injury the steel industry is presently suffering from unfair trade practices. It can do so without eliminating all possibility of price competition -- an element missing in solutions featuring quantitative restraints. Moreover, the Triggering Price technique would not require the effective exclusion of the bulk of steel imports from Europe which will probably occur if pending and projected antidumping petitions against European producers continue to be prosecuted.

Implementation of the Triggering Price approach, particularly the monitoring of imports of thousands of different products, poses substantial problems. However, these problems are qualitatively no different than those that would be required in the effective monitoring of a quantitative restraint approach or in full-scale administration of the Antidumping Act. Initial efforts to implement the Triggering Price approach will undoubtedly not be perfect; but experience in working under the approach should teach us how to cure its inadequacies.

We have concluded that if unfair competition, as defined by the law, is effectively deterred through the "Fast Track - Trigger Price System" that the industry can recapture a substantial share of the market. Necessarily rough calculations indicate that, absent price increases significantly out-of-line with cost increases, the industry should recapture approximately 6 million tons of production represented by a reduction in imports. This represents a decline from the current 20% level of total consumption accounted for by imports to a level of 14% (which is closer to the historical average of the last decade).

The increased volume should raise industry earnings by $900 million and result in the employment of 25,000 or more steelworkers than would be the case if current conditions continued. This should also result in a rise in the industry's rates of capacity utilization to 85%, which is relatively high in comparison to the industry's experience over the last decade.

II. Modernization

A. The industry has a serious cash flow problem. Earnings are not sufficient to meet its captial requirements for modernization, replacement and environmental controls or for access to private capital on the scale needed. Indeed this year there will be no earnings for the industry as a whole.

We estimate the industry needs to spend between $3.5 and $4.0 billion annually to modernize, and to maintain and replace existing equipment. Between $0.5 and $1 billion of these expenditures are allotted to investment in pollution control equipment.

The industry's cash flow in 1975 and 1976 was $3.0 billion. It will fall to $2.2 billion in 1977. There is therefore a substantial gap of $1.3 to $1.8 billion between current cash flow before dividend payments and investment needs.

The increased earnings from the application of the reference price system should yield an increase of $900 million in earnings. However, a gap of between $0.4 and $0.9 billion will remain even before the payment of dividends. Assuming historical levels of dividend payoffs, $600 million annually, the gap would be between $1 and $1.5 billion.

The general tax package includes a number of measures which on net will stimulate investment and increase cash flow in the steel industry as well as in other industries. We estimate the net effect will be to increase cash flow by an average of $150 million annually from 1979 through 1982.

Recommendation: The Internal Revenue Service (IRS) through administrative action reduce the guideline life of steel equipment from its current level of 18 years to 15 years. These more liberal guidelines will add $18 million to industry cash flow in 1978 and increase to $90 million by 1982.

impact on other heavy industry?

A reduction in the guideline life in combination with the various plus and minus measures of your new general tax package will increase the industry's cash flow by an average of approximately $200 million annually from 1979 through 1982.

Even with these tax measures the industry will still have a gap of between $0.8 and $1.3 billion between internal funds and capital requirements.

The cash flow assistance that the Federal Government would make available to the steel industry as such is small, i.e., an average of $40 to $50 million annually in liberalized depreciation allowances. However, we estimate that when it is combined with the improved earnings and your general tax program for next year, the bulk of the industry could then be in a position to secure from private capital markets the remaining funds necessary for modernization.

Industry representatives have agreed to make public statements committing the increase in cash flow for stepped-up modernization of their steel plant and equipment. We estimate that if the industry could implement its current plans for modernization their production costs would decline by $6 to $9 per ton. This is a small but significant reduction. The Council on Wage & Price Stability study indicated that the differential between U.S. and Japanese costs in the U.S. market was not much larger.

B. There are smaller integrated and nonintegrated steel firms who are extremely depressed financially and who would benefit only marginally from the above measures. These firms are located in areas where most of the recent plant closings and cutbacks occurred. They are in serious trouble and may close if additional help is not provided. Closings or cutbacks of these firms would exacerbate the already depressed conditions in these areas, and remove a source of competition for the larger integrated firms. These firms currently employ 83,000 workers and account for 16% of total industry raw steel production.

Recommendation: You direct the release of a $215 million Economic Development Assistance revolving fund in the Office of Management and Budget as funds for industrial loan guarantees.

What would remain in EDA funds?

Only firms experiencing (1) serious financial problems, with little or no access to capital markets, (2) who are located in areas of high and rising unemployment or threatened massive layoffs and (3) who have viable plans to modernize would qualify for such guarantees on a case-by-case examination.

Under the Economic Development Administration's (EDA) formula the $215 million could support $1 billion in loan guarantees. However, we estimate that the maximum use of these guarantees over the next four years could cumulate to no more than $500 million and might be less.

III. Rationalizing Environmental Policy and Procedures

The steel industry is a major polluter. The costs of complying with environmental regulations are substantial and will rise in the near term as the industry is forced to bring older facilities into compliance. This is also true for other industries. We do not believe that the current financial plight of the industry should deter us in seeking a cleaner environment.

However, we do believe it may be possible to achieve our goal of a cleaner environment at a reduced economic cost if there were certain changes in the regulatory process. The EPA agrees and is willing to investigate certain areas to see if this is possible and appropriate.

Recommendations:

-- No relaxation of environmental goals.

-- No differential treatment in the regulation or enforcement for the steel industry.

-- However we recommend that the EPA reexamine its regulations and its regulatory processes to ensure that they are economically efficient and do not present any unnecessary barriers to modernization.

The EPA Administrator has agreed to conduct this reexamination and has already begun to do so. There is no need therefore for you to formally request that such a reexamination be conducted.

Recognizing that some of these regulatory reform issues have macroeconomic significance, EPA has asked CEA to assist with the analyses.

-- EPA will deliver a progress report that will reflect CEA's views to you in six months. The study will cover such areas as:

-- the policies that apply to new sources locating in non-attainment areas, including the "offset" policies;

-- issuance of future permits plant wide vs. process by process; and

-- the appropriate economic considerations for New Source Performance Standards.

IV. <u>Community and Labor Assistance</u>

A. The depressed conditions in the U.S. steel industry and recent plant closings and shutdowns have been largely responsible for the reduction in total industry employment from 445,000 to 425,000 since 1976. Approximately 57,000 steelworkers are now receiving trade adjustment assistance.

The impact is exaggerated because it is concentrated regionally. Almost 55% of the laid off steelworkers are located in Ohio, Pennsylvania and New York, and the recent plant closings and cutbacks are confined to these areas.

> <u>Recommendation:</u> <u>You direct the EDA of the Department of Commerce to dedicate $20 million in funds under their Title XI authority to combat actual or threatened unemployment in affected steel communities.</u>

This would be in addition to the possible qualification of these communities' requests for assistance under Title I -- regular public works; and Title III -- technical assistance.

B. The Department of Energy and the EPA are currently reviewing a gasification process which uses abandoned blast furnaces to produce industrial fuel gases that may be sold to the steel industry and utilities.

> <u>Recommendation:</u> <u>You establish an interagency task force consisting of the Department of Energy, the Environmental Protection Agency, and the Department of Commerce to review and evaluate alternative uses for abandoned steel facilities and report to you their findings by June 30, 1978.</u>

C. In the area of mass layoffs two important groups with major community and worker support, the Youngstown Religious Coalition and the Steel Community Coalition, are combining their efforts to conduct a feasibility study of community and/or worker takeover of abandoned steel facilities in Youngstown, Ohio. We believe that in selective cases and under certain conditions a community or worker takeover, with sufficient modernization, may prove to be realistic and economically viable. There is no way of prejudging particular cases without hardheaded feasibility studies.

Recommendation: You direct the EDA supplemented as appropriate by the Department of Housing and Urban Development to give consideration in their analysis of funding requests to economically viable projects involving community and/or worker takeover of abandoned steel facilities.

7

D. Action on the proposed Trade Adjustment Assistance program would help meet problems primarily in the communities and secondarily to the labor force heavily impacted by steel problems, and give guidance to Congressional consideration of legislation being proposed by various members of the Steel Caucus.

Recommendation: We recommend that a final decision be made, before the Congress resumes in January, on the exact content of the Trade Adjustment Assistance package presently before you.

V. Other General Measures

Our investigation exposed several areas where small but significant changes in existing policies or practices, or their clarification, could increase the efficiency of weaker steel firms, thus promoting competition and stabilizing employment in the industry. These include: joint venture and merger policies; funding of R&D; transportation systems; and industry, labor and government cooperation.

A. Several recent studies show that joint ventures in various steel processes (furnace melt capacity, coke ovens) could reduce costs, lower energy consumption, and make it easier to meet environmental standards. Mergers of smaller, weaker firms could lead to increased efficiency as a result of scale economies, and thus promote competition. The steel industry has expressed increased interest in both joint ventures and mergers, but there is widespread feeling that government policies in both of these areas need clarification.

Recommendation: You request the Department of Justice to issue guidelines for (1) joint ventures in steel processes (2) and to the extent appropriate mergers in the steel industry and (3) to handle requests for joint ventures and mergers by steel companies expeditiously.

B. The steel industry is the second largest energy consumer among U.S. industries and is a major polluter. The development of new technology which saves energy and reduces the costs of pollution control would lower the industry's costs. However, the industry's total R&D spending as a percent of sales is the lowest of all U.S. industries except for food and textiles. This is due in part to the depressed earnings in the industry. Policies that permit sharing of costs could reduce the burden to individual firms and could spur spending on R&D.

Federal contributions to industry R&D are currently heavily imbalanced in favor of a few industries. Despite the fact that steel is a basic important industry, Federal contributions to the steel industry's R&D expenditures are low, representing only 3% of the industry's R&D spending. This compares with Federal contributions accounting for 9% of the R&D expenditures of the chemical industry, 14% of machinery industry expenditures, 47% of electrical equipment, and 78% of aircraft spending.

Recommendation: You request the Department of Justice to issue specific guidelines for joint ventures in steel industry R&D directed toward energy savings and pollution abatement.

ok narrowly defined

Recommendation: You also request the Office of Management and Budget and the Office of Science and Technology to examine the adequacy of Federal R&D funding in the steel industry with special reference to funding of research on energy conservation and pollution abatement technology.

ok

C. Transportation costs are an important cost item for steel and for other basic industries, particularly those located at inland sites. Currently rail service is more expensive than truck service for bulk commodities in some areas of the country because of regulations and other characteristics of the system. For example, iron ore is transported to Youngstown by truck rather than rail because of the cost and time savings. The concept of unit ore trains is an alternative now under investigation that would lower costs.

Recommendation: You establish a task force to review transportation systems serving the steel industry that will report to you on what regulatory and other reforms could be made to improve the efficiency and to lower the costs of these systems.

ok

D. There is a need to continue cooperation and coordination of this program between the government, the industry, and labor.

<u>Recommendation:</u> <u>We recommend that you establish a tripartite committee of industry, labor and government representatives as a mechanism to ensure a continuing cooperative approach to the problems and progress of the steel industry</u>. 7

THE PRESIDENT HAS SEEN.

To: Stu & Tony

This is ok -
See comments on
Stu's memo -
a) Too many "task
forces" and
Committees - Consolidate
if possible
b) Reread this for
typos & some
confusing language

JC

REPORT TO THE PRESIDENT

A COMPREHENSIVE PROGRAM FOR THE STEEL INDUSTRY

Anthony M. Solomon
Chairman, Task Force

Table of Contents

Introduction 1

I. Reasons For the Administration's Program 3

- Steel is a major industry 4
- Employment problems are extensive 5
- Steel is basic to U.S. interests 5
- The world steel glut 5
- Antidumping complaints 6
- Obsolescence of U.S. plants 8
- Costs and uncertainties surrounding U.S. government policy 9

II. U.S. Government Objectives 10

III. A Policy Program for the Steel Industry 13

- Relief from unfair trade practices 13
- Modernization 29
- Rationalizing environmental policies and practices 35
- Community and labor assistance 40
- Other general measures and recommendations 46
- Conclusion 49

The United States steel industry faces a number of serious problems:

- -- its competitive position has eroded over time, and its traditional market is being encroached upon by substitute materials and by imports of steel;
- -- its competition from imports, often at dramatically reduced prices, has increased as the world steel industry has stagnated;
- -- its earnings have dropped sharply and are considerably below historic levels;
- -- it must invest heavily to modernize and increase efficiency in order to remain competitive;
- -- it must make substantial expenditures to meet environmental regulations; but
- -- it has had difficulty in raising the necessary capital for these expenditures under present market conditions.

The industry's financial condition, together with the other factors enumerated above, have led to several plant closings or cutbacks during 1977. One medium-sized producer is in bankruptcy, and several other firms are in financial difficulties. Unemployment among steel workers is high and is expected to continue to rise. Several communities -- such as Youngstown (Ohio) and Johnstown (Pennsylvania) -- which to a large extent depend on the steel industry for their economic livelihood are suffering severe adverse consequences.

The steel industry's problems are not new; they have been developing since the 1950s. Its current difficulties are especially severe because of the deep recession in world steel markets. Steel demand is highly cyclical and dependent on the general trend of the economy. Under current conditions of slow growth and slack aggregate demand in most industrial countries, considerable global excess capacity for steel making has developed. Many exporters have reacted to these market conditions by sharply reducing their price on steel mill products. Since the U.S. is the largest market open to steel imports, competition from foreign sources is intense and adds to the domestic industry's problems.

Currently, the market for steel products reflects a considerable recovery from the depressed conditions of 1975. Total consumption of steel mill products may reach 108 to 110 million tons in 1977, a level exceeded only twice before -- in 1973 and 1974. Nevertheless, many individual markets, especially those fueled by the demand for capital goods, remain depressed.

Much of the expansion of demand, however, has been satisfied by a rise in imports. The share of the market supplied by foreign producers is currently running at 20 percent compared to an average of 13 percent from 1973 through 1976. As a result U.S. producers' domestic shipments in 1977 will expand by no more than four percent, to 92 to 93 million tons, compared to an overall growth in the market of eight percent. The industry's utilization of capacity will average only 80 percent for the year.

I. Reasons for the Administration's Program

A variety of factors have contributed to the current crisis in the steel industry. Perhaps none of these problems by itself would call for a special government program, but, when taken together, they provide a persuasive case for action:

-- The industry is one of the Nation's largest and is critical to its economy and security;

-- The present difficulties have created disruptive effects upon communities affected by employment cutbacks and plant closings;

-- A large reduction in U.S. capacity in this basic industry threatens future problems for the economy;

-- A worldwide glut of steel capacity exists and persists;

-- An unprecedented number of antidumping complaints relating to steel threatens international trade relations with, and the economic policies of, the principal trading partners of the United States;

-- Steel plants concentrated in several Eastern regions face severe competitive problems;

-- U.S. policies relating to environmental controls and energy impose particularly burdensome obligations on the steel industry already facing needs for continuing modernization and capital replacement.

1. Steel is a major industry. With annual sales approaching $40 billion, the steel industry is surpassed in size only by the automobile and petroleum industries. Therefore, major dislocations of the industry are bound to have important adverse repercussions on capital markets, the firms which supply the industry with equipment and raw materials, as well as the communities in which the plants are located. Conversely, attempts to smooth the transition from recession to recovery in this industry are likely to ease problems in a wide range of markets and geographical areas.

2. Employment problems are extensive. Economic dislocations in the steel industry have caused substantial layoffs and serious regional disruptions. Industry employment has fallen from more than 500,000 hourly workers in 1957 to fewer than 370,000 today. The plant closings this fall in Youngstown, Lackawanna, and Johnstown alone reduced steel employment by 12,000 workers. At present, more than 50,000 steelworkers have been certified as eligible for Trade Adjustment Assistance. Further reductions in capacity utilization would potentially add to this total.

3. Steel is basic to U.S. interests. While there is no compelling argument for maintaining a domestic steel industry which is capable of supplying 100 percent of peak U.S. needs, there is a legitimate cause for concern that heavy reliance upon imports from a few exporting regions of the world could place the economy and perhaps even the nation's security at risk at some future date.

4. The world steel glut. The impact of the 1974-75 recession has been especially severe in the steel industry in light of the expansion of world capacity. Present predictions of world steel market conditions do not forecast a return to even 85 percent of capacity operation by 1980. Therefore, foreign producers can be expected to

continue their aggressive export practices, and the depressed export prices are not likely to recover in the near future.

If the current rise in U.S. steel imports were simply a reaction to competitive market forces, there would be less cause for U.S. Government concern. But the sharp rise in imports suggests that more than competitive market forces may be driving imports. European producers, in particular, have lowered their prices to the U.S. market since 1976 in an attempt to maintain their output and employment after trying but failing to stabilize their domestic markets through concerted action.

The 1976 increase in U.S. steel imports from 12 to 14.3 million tons was a predictable response to market conditions, as the U.S. economy recovered at a faster pace than most other developed nations. But the sharp rise from the 1976 level to an annual rate of over 20 million tons in the six months since March 1977 suggests more than a competitive response to continued gradual growth of U.S. steel demand and rising U.S. steel prices. It is this sharp discontinuity in the world steel trade that has created heightened problems for the U.S. industry.

5. Antidumping complaints. Since January 1, 1975, 19 separate antidumping complaints have been submitted to the Treasury Department, which relate primarily to steel.

imports from Japan and the European Community. These complaints refer to a wide variety of steel products which are estimated to have been imported in volumes up to $1.7 billion in calendar year 1976. Informal indications from the industry suggest further dumping complaints are being prepared.

Only one of the major dumping investigations affecting basic steel products has thus far reached the point at which the Treasury has made a Tentative Determination of sales at "less than fair value." In that case, concerning carbon steel plate from Japan, the Treasury found dumping margins of approximately 32% on imports from Japan's five principal steel companies. Withholding of Appraisement of such merchandise pending a Final Determination in this case has been ordered and importers are obliged to post a bond on all future imports equal to the margin of dumping tentatively established. The undertainty created by the Tentative Determination and its concurrent bonding requirement on further imports has sharply reduced new orders to the Japanese producers. The U.S. complainant in that case, Gilmore Steel Corporation, has indicated also that during the period between the Tentative Determination and the Final Determination its own orders have dropped off as consumers await the final decision. This uncertainty creates severe problems for consumers and suppliers in both the United States and in foreign countries. A similar period of uncertainty with far more wide ranging effects is likely to be created if all the antidumping complaints are pursued to conclusion.

6. Obsolescence of U.S. plants. Any sharp decline in the demand for an industry's output leads firms to consider closing their least efficient facilities. These decisions must be based upon the probability of a recovery in demand, the costs associated with maintaining production while operating at less than capacity, the prospects for modernization, and the extent to which capacity can be expanded more efficiently elsewhere.

In the steel industry, the variance in plant age and efficiency is sizable, with many facilities only approaching a breakeven point even at high operating rates. Not all of these plants can be modernized economically because of their location and existing facilities. As a result, several of the plants are candidates for closure during periods of depressed market conditions.

The dispersion in plant efficiency in this industry is not unique, but it is an important factor in the current policy discussion. The domestic market for steel has shifted from the East to the Midwest, and new technologies have not been easily adapted to some Eastern plants which face problems of crowding, small-scale blast furnaces, out of balance finishing facilities, and environmental constraints. The shift of production from these facilities to more modern plants in other sectors of the country would not be easy under any circumstances.

7. <u>Costs and uncertainties surrounding U.S. government policy</u>. A major obstacle to investment in U.S. steel facilities -- other than insufficient demand -- is a degree of uncertainty in government policy. With continuing changes in water and air pollution legislation, the industry faces numerous unknowns in planning new facilities. While some of this uncertainty is inevitable in the process of reevaluating environmental goals, its cost to an industry attempting to cope with several billion dollars in annual modernization and refurbishing requirements can be considerable. In addition, the industry will be sharply impacted by government decisions with respect to energy policy, health and safety, and land-use policy.

II. U.S. Government Objectives

The interagency steel task force has established a number of objectives for a steel program which both provides reasonable goals for its policies and limits the extent of Government involvement in industry affairs.

1. Our primary objective is to assist the steel industry in a manner which will stimulate efficiency and enable the industry to compete fairly. A stronger competitive position is essential if the U.S. steel industry is to maintain its markets. This requires an increased pace in investment in modern, efficient facilities and an assurance that U.S. production will not be artificially disadvantaged by imports due to unfair foreign trade practices. A healthy, competitive, and efficient industry will benefit consumers, assist our efforts to hold down inflation, provide stable employment opportunities, and contribute to a strong domestic economy.

2. A second objective is to help ease the burden of adjustment to market trends for both industry and labor. Massive worker layoffs, as we have recently experienced, represent a serious human tragedy for many families and can cause severe disruptions for whole communities. Although some mills in a few areas may no longer be economically viable, we should be able to lessen the immediate impact of adjustment through active development assistance programs for both firms

and communities to provide alternative industry and employment opportunities, to retrain workers, and to provide financial support for workers laid off due to import competition until they can find new jobs.

3. A third objective is to provide meaningful incentives for plant and equipment modernization through appropriate tax, investment, and financial assistance. Continual modernization is required if the industry is to operate at peak efficiency.

4. A fourth objective is to expedite relief from unfair import competition, but to do so in a manner which will not preclude healthy competition in the U.S. market. Any policies affecting imports must clearly be consistent with our overall objective of maintaining an open world trading environment based upon normal trading practices. U.S. enforcement of domestic statutes designed to prevent unfairly priced imports should be effective and responsive to the requirements of suppliers and consumers alike.

In determining a comprehensive policy program for the steel industry, there are a number of dangers that the government must also avoid:

-- We must avoid any direct government involvement in the industry's decisions. Our role is not to direct the industry's actions, but to help create an environment within which a free industry can operate efficiently.

-- We must avoid measures which stimulate inflation. Our efforts should not contribute to unnecessary and disruptive price increases at the expense of domestic consumers and the economy as a whole.

Achievement of our objectives requires a cooperative effort by the industry, labor and the government. The government is taking significant steps in developing a comprehensive program for the steel industry, affected steelworkers, and the communities in which they work. It will continue these initiatives by implementing the program we propose. We expect that the industry and labor will cooperate by taking advantage of this opportunity to improve their efficiency and reduce costs as a means of restoring the steel industry to sound health.

III. A Policy Program for the Steel Industry

The comprehensive program of recommendations for the steel industry is based on the objectives outlined above. It requires no specific legislative measures and can be implemented quickly. Further while some measures are specific to the steel industry, many are broad-based and will be beneficial to other industries as well.

The policy recommendations may be divided into five categories or problem areas:

A. Relief from Unfair Trade Practices;

B. Modernization;

C. Rationalizing Environmental Policy and Procedures;

D. Community and Labor Assistance; and

E. Other General Measures.

A. Relief from Unfair Trade Practices -- "Trigger Price" Antidumping System

1. Introduction

The global slump in steel demand and the substantial excess capacity in the world steel industry have led to aggressive exporting by foreign steel makers, in particular, those in Japan and the European Community (EC) countries. The U.S. market, because of its size, its relatively higher rate of economic recovery, and its openness to all suppliers is a primary market for sales of foreign steel producers. U.S. steel imports for the first three quarters of 1977 are 34% above those for the same period in 1976, and the share of U.S. steel consumption accounted for by imports is expected to rise on an annual basis from 14.1% of domestic consumption in 1976 to 17.9% this year.

Increases in U.S. steel-imports are not unique to the industry's experience. Foreign steel makers began to expand their production capacity and to compete actively in the U.S. market in the late 1950's. Since that time they have captured a large share of the growth in U.S. demand, reaching a record relative level in 1971 when imports accounted for over 18% of U.S. steel consumption. This year they may reach 20%.

Critics of the U.S. steel industry argue that past and present increases in imports are primarily a reflection of the relative efficiency of foreign steelmakers and the willingness of foreign steel exporters to price in a more flexible manner. Moreover, they contend that imports are essential to price competition in the U.S. market, and thus an important factor in controlling inflation in this country.

The U.S. steel industry and the labor unions contend that, given the current depressed state of the domestic industry, immediate trade relief is needed. The industry's central argument is that the recent surge in imports is largely attributa-able to unfair trade practices, principally dumping. Accordingly, numerous complaints have been filed under the Anti-dumping Act of 1921. Indeed, the 19 separate petitions involving steel products now before the Treasury Department in various stages of investigation are an unprecedented number with respect to a single industry within so short a time frame.

2. Present Procedures under the Antidumping Act

It has been the policy of the Treasury Department to initiate antidumping investigations only upon receipt of a complaint setting forth a prima facie case of "dumping," i.e. sales in the United States below "fair value" that injure or are likely to injure a U.S. industry. Fair value is generally established from the home market prices of the exporter. This policy has obligated the firms affected by imports to furnish in some detail available evidence concerning prices in the home market of the foreign exporter as well as the exporter's prices offered in the United States. In addition, a submission concerning the extent to which such imports have injured or are likely to injure the domestic industry must be included in the complaint. Pursuant to amendments to the Antidumping Act adopted as a part of the Trade Act of 1974, home market prices as a reference for determining the "fair value" of imported merchandise may be disregarded if substantial sales in the home market have been made at prices below the cost of production not permitting the recovery of all costs within a reasonable period of time. If such home market prices are disregarded, fair value is, as a rule, to be established from the "constructed value" of the product, meaning its cost of fabrication, plus statutorily mandated minimum additions of 10% for overhead and 8% for profit. Many of the complaints filed with respect to steel mill products have included allegations invoking these provisions.

If a complaint is deemed sufficient, an investigation is opened in which the Customs Service examines the level of home market and U.S. sales prices of the foreign exporter in the country under consideration. Moreover, if the case involves an analysis of alleged sales below the cost of production, the foreign producers' production costs must also be determined. Investigation of such facts is complex and time consuming, involving the verification of extensive documentary evidence in foreign countries and in the United States. Such investigations have also been impeded by the objections of the producers to the cost and time involved in compiling and submitting cost data and to the submission of such sensitive competitive data to a foreign government, with a potential for its possible - even inadvertent - release to competitors.

As noted in the introduction, only one of the major dumping investigations affecting steel mill products has, as of December 1, 1977, reached the point at which the Treasury has made a tentative determination of sales at "less than fair value." This stage of the proceedings is usually reached six months after the formal initiation of the investigation. The tentative determination announces the margin of dumping,(i.e., the percentage of the U.S. weighted average prices by which such prices are less than the "fair value" of the merchandise)found during the period of investigation (usually the six month period surrounding the date on which the complaint was initially filed with the Treasury). Withholding of the appraisement of imports of the type covered by the investigation then begins. Thereafter, all imports of the affected merchandise can only be made if covered by a bond equal in value to the estimated antidumping duties that may become due. As a rule, the bond is fixed as a percentage of further import values equal to the margin of dumping announced in the tentative determination. Following publication of the tentative determination, all interested parties are afforded an opportunity to present briefs and oral arguments to the Treasury Department before it announces its final determination. If the final determination is affirmative (which must be announced within three months of the tentative determination), the case is referred to the U.S. International Trade Commission for its investigation of whether the sales at less than fair value have caused or are likely to cause injury to a domestic industry. If the ITC finding is in the affirmative, a dumping finding is then published and antidumping duties can be assessed on all merchandise as to which appraisement was withheld and on all further imports sold at dumping margins.

In most cases, the entire procedure, from the date of initial filing of a complaint through the publication of the dumping finding, takes approximately 13 months. However, this period must be added to the time it takes the affected industry to prepare a suitable complaint.

3. Criticism of the Present System

The steel industry has suggested that the traditional procedure is too cumbersome to provide relief quickly from sudden surges of imports that may cause injury to an American industry. On the other hand, once the investigation is concluded and a dumping finding has been issued, its effect may be to staunch all imports of the product concerned. In the case of carbon steel plate from Japan, which is the only steel mill product that has, to date, been the subject of even a tentative determination of sales at less than fair value, it has been reported that the high margins of dumping found (with the concurrent requirement for an equivalent bond on future entries) have resulted in a virtual halt in orders for that product from the foreign suppliers.

The steel industry has also criticized existing antidumping remedies because of the specific product orientation of individual investigations and findings. Cases relate only to specific types of products and it is only such specific types that are subjected to the investigative analysis and withholding/bonding aspects of antidumping proceedings. Industry sources contend that in the event that a proceeding is initiated with respect to one product, foreign suppliers can readily shift to another product outside the scope of the first investigation. It has only been in the most recent months that steel companies have attempted to file a series of antidumping complaints, covering a broad spectrum of steel products so as to overcome such attempted shifts in supply strategies.

The Task Force has attempted to take all of these concerns into account and at the same time comply with the objective set out in Part II of this report in developing a technique for providing the industry with relief from unfair trade practices. Accordingly:

We recommend that the Department of the Treasury, in administering the Antidumping Act, set up a system of trigger prices, based on the full costs of production including appropriate capital charges of steel mill products by the most efficient foreign steel producers (currently the Japanese steel industry), which would be used as a basis for monitoring imports of steel into the United States and for initiating accelerated antidumping investigations with respect to imports priced below the trigger prices.

The trigger price mechanism is intended to provide the Secretary of the Treasury with a basis for initiating antidumping investigations without any prior industry complaint. Such authority exists under the Antidumping Act although it has not been used in recent years. As such it does not detract from any of the legal rights that foreign producers or the domestic industry presently enjoy under the Act. The trigger price is also a device for applying the resources of the Treasury Department to a constant monitoring of imports affecting a particularly sensitive industry viewed as a whole, instead of focusing on the investigation of individual complaints with respect to specified products -- and then taking expedited action under the law. It thus meets the principal criticisms of present practices under the Act.

1. <u>Determining the Trigger Price</u>

The trigger price will be determined by the Treasury as follows:

-- The unit cost of producing carbon and alloy steel in the most efficient exporting country -- currently Japan -- will be estimated at current prices and exchange rates from the best evidence available. Such evidence will consist of financial statements routinely prepared by the largest producers of carbon steel in Japan, data on the cost of labor, materials, and capital equipment used in the production of Japanese steel, as well as cost data which the companies have agreed to make available in aggregate form to the Treasury. The "costs of production" as calculated are intended to cover the traditional costs of labor, materials and directly related overhead, as well as general administrative expenses and a capital charge.

-- Discrete product groups will be established pursuant to internationally recognized classifications for steel mill products. For each product, a trigger price will be determined either directly from the financial statements and cost of production information supplied by the steel companies, or will be derived through procedures based upon the best available information on Japanese input costs and production experience.

-- It is contemplated that trigger prices will be adjusted quarterly to reflect intervening changes in costs of production components and in currency values.

-- At the time of each quarterly adjustment, the trigger price for each product will be set within five percent of that product's full cost of production. The flexibility in either direction will permit smoothing out sharp fluctuations of the components of the cost of production that may only be temporary. Taking immediate account of all such fluctuations would be unnecessarily disruptive to both domestic and international patterns of trade.

-- The trigger price will be identical for all imports regardless of source and constructed on a "CIF" basis. Transportation from Japan to each major importing region of the country and insurance costs for each product class will be added to the production cost to arrive at the higher price.

-- Stainless steel will be excluded from the trigger price system because a quota system is in effect with respect to such products. On the other hand, alloy products will be included.

-- Only steel mill products as conventionally defined in the United States will be included in the system.

2. Operation of Trigger Price Mechanism. The Customs Service will organize a special task force to administer the trigger price system. Regulations will be published shortly for public comment which would obligate importers to present at entry of all steel imports a new "Special Customs Steel Invoice," and to certify on the invoice or otherwise that no rebates, drawbacks or unrelated incentives have been or will be paid or granted in connection with the transaction reflected in the invoice. The Special Customs Steel Invoice would be modeled upon the Special Customs Invoice presently in use and would provide space for the recording of product definitions, the base price and significant extras used in calculating the transaction price for the imported product. The total price shown on the Special Customs Steel Invoice would be compared to the trigger price data at the port of entry. Imports priced below the trigger price would be promptly identified and the information immediately forwarded to the Treasury in Washington for further investigation. If warranted, a formal antidumping investigation could be initiated within a matter of weeks.

Once the trigger price mechanism has been set in place, it is contemplated that information will be currently obtained both in the United States and abroad concerning the prices and costs of production of steel and the condition of the domestic industry. Therefore, if a formal antidumping investigation should appear warranted, it could not only be opened quickly but it could be concluded within a time period substantially shorter than is presently the case. In the event the investigation indicates such action is warranted, existing statutory powers to impose a retroactive withholding of appraisement could be ordered at the time the tentative determination is published. Following completion of the Treasury's "fast track" investigation, the case would be referred to the U.S. International Trade Commission for the required injury determination which could similarily be expedited.

As noted, the implementation of the trigger price mechanism will require the publication of a form of Special Customs Steel Invoice and draft regulations prescribing its use. Public comment on the form and regulations will be solicited, as well as on the applicability of the proposed procedures during the transition to its complete implementation. As presently conceived, all contracts concluded before the announcement date of the trigger prices, with goods loaded on board ship prior to the <u>effective</u> date of the proposed system, would not be subject to the trigger price mechanism. It would seem difficult to subject existing contracts to ex-post-facto application of the system. All contracts concluded prior to the announcement of the trigger prices but shipped after their effective date would be subject to scrutiny, and substantial underpricing could warrant immediate initiation of an antidumping investigation. Contracts and shipping concluded after the publication of the trigger prices would be subject to the mechanism as though such contracts had been made and the shipments completed following the effective date of the system. The trigger prices will be published promptly after their calculation to provide as much advance notice to the trade as possible.

The trigger price mechanism and its associated procedures can be instituted within approximately 60 days, including a period of 30 days for public comments on the proposed regulations and the form of the Special Customs Steel Invoice. The proposed procedures are intended only to provide the Secretary with a basis for self-initiating antidumping investigations; they are not a "minimum price" system. Thus, none of its terms are keyed to statutory definitions of, for example "foreign market value" or "constructed value." But they are fully consistent with existing statutory law and with the international obligations of the United States under the General Agreement on Tariffs and Trade and the International Antidumping Code.

Implementation of the trigger price mechanism should result in a substantial elimination of the injury the steel industry claims it is presently suffering due to sales of imported steel below its "fair value." This should, in turn, eliminate the need for the domestic steel companies to maintain their pending antidumping complaints and encourage them to consider the prompt withdrawal of the petitions now under investigation. The internal resources of the Treasury Department required to operate the proposed trigger price system would make it difficult simultaneously to carry on numerous full scale dumping investigations. The system is intended to provide all concerned with constant, current information on price trends and, thus, to permit prompt investigations of violations.

The implementation of the trigger price mechanism may not prevent less efficient producers from selling steel products at less than "fair value" within the meaning of the Antidumping Act. Such high-cost producers may be selling in both the home market and for export at prices below their costs of production. However, to the extent that the more efficient producers also retain excess capacity to compete in the U.S. market, it may not be possible for the domestic industry to prove injury as a consequence of the sales at less than fair value from the less efficient producers. Furthermore, the anticipated increase in the share of the market supplied by the domestic industry should make injury allegations harder to prove. Nevertheless, it would be open to the affected U.S.industry to pursue the traditional remedies under the Antidumping Act if that appeared appropriate.

3. Effect of the Trigger Price. Data from which the trigger prices will be fixed has not yet been finally analyzed. But preliminary review suggests it is reasonable to assume that the trigger price mechanism will lead to a rapid amelioration of the problems the U.S. industry has endured from unfairly priced imports. The industry should recapture a substantial share of the U.S. market that it has lost to imports on this account. The precise level of import reduction will, however, depend upon the price behavior of the domestic steel companies. The more sharply the domestic firms raise prices, the smaller will be their recapture of the market. The expected expansion in shipments for U.S. firms should result in a much greater level of steel employment and an increase in capacity utilization with its associated benefits in lowering costs of production.

4. Potential Problems. Implementation of the trigger price approach, particularly the monitoring of imports of thousands of different products, poses substantial problems. However, these problems are qualitatively no different than

those that would be required in the effective monitoring of a quantitative restraint approach or in full-scale administration of the Antidumping Act. Initial efforts to implement the trigger price approach will undoubtedly not be perfect, but experience in working under it should teach us how to cure its inadequacies. There are nevertheless two problems which may not be fully met by the proposed system:

-- The system extends only to steel mill products; hence, there is some risk that steel fabrications will substitute for the more basic steel products in U.S. imports, as occurred during the quantitative import restrictions on steel mill products imposed in the late 1960's.

-- Exporters may attempt to shift their mix of products to the highest valued items in each product category and, thus, "skim the cream" of the trade while leaving lower-valued, less profitable items to the domestic industry.

The Customs Service Task Force implementing the system will be alerted to these problems. Should sales of fabrications or top-of-the-line items provide significant opportunities for evasion of the intended relief of the system, appropriate action will be taken.

5. Duration of the "Trigger-Price" System. This system of resolving issues of unfair trade practices on an accelerated basis is designed to address the specific problems which now exist with respect to steel imports. An expansion of the world economy in future years will gradually eliminate the "overhang" of excess steel production capacity. As a result, pricing practices in world markets will return to more normal patterns and the need for a special program for dealing with import prices will recede.

This program will be reviewed from time to time to insure its consistency with the original concerns. The strength of the world steel markets, domestic capacity utilization, profitability, employment conditions, and the behavior of domestic and international prices and costs will be examined. When conditions warrant, the system will be terminated and the more traditional procedures restored.

In the recent past and for the foreseeable future the United States has carried and will continue to carry on with the EC, Japan and other countries a frank and extensive dialogue both on the nature of the problems of the world's steel industry and the implications of alternative measures for dealing with them. The proposals made here have benefitted from understandings gained through these consultations. These consultations should continue on both a bilateral and multilateral basis.

B. Modernization

The steel industry is currently facing another serious problem -- the industry needs to modernize to compete effectively.

The U.S. Steel industry's capital expenditures totalled $21 billion over the last ten years (1967-1976). Despite this level of spending there remains a significant need for modernization of plant and equipment. This is due in large part to the pattern of spending by the industry. Faced with scarce funds and a physical plant that was largely fixed in terms of location, the industry concentrated its spending on its newer existing plants in growing markets, largely ignoring the older plants in traditional and in some cases declining markets. The result is that while the industry does have modern up-to-date facilities in some areas, selected plants or parts of plants are unquestionably obsolete, and badly in need of modernization.

There is also some question of whether the industry was too slow to adopt newer technologies. Recent research by the FTC indicates the U.S. industry has not been remiss in adopting new techniques.

Nevertheless, the U.S. steel industry acknowledges that there is a need for further modernization, and is willing to commit funds to this purpose. However, it contends that it does not have the funds to engage in modernization programs.

The industry estimates that it must spend between $2.0-$2.5 billion to maintain and refurbish its existing plant and equipment. These expenditures include some modernization through replacement. Capital expenditures necessary to comply with environmental regulations are also substantial and are rising. Recent studies on the industry's capital requirements for pollution control reveal that the industry will have to spend a minimum of $6 billion from 1977 to 1983 to comply with environmental standards. Moreover, a large portion of these expenditures will have to be made in earlier years to bring older plants, which require expensive retrofitting, into compliance.

With the exception of the boom years 1973 and 1974, the steel industry's profitability over the last decade have been substantially below the average for all manufucturing industries. Since 1974, the industry's earnings declined sharply from a 6.4% return on sales in 1974, to 3.6% in 1976, and a record low of 1.4% in the first half of 1977.

The decline in earnings has reduced the industry's cash flow (net income plus allowances for capital consumption) by 23% from $3.8 billion in 1974 to $3.0 billion in 1976. Recent forecasts indicate it will decline further to between $2.0 and $2.2 billion in 1977. The result in the industry's ability to finance near term replacement and modernization through internal funding is seriously diminished.

This reduction in internal funds is further exacerbated by the industry's inabilty to acquire funds through external financing. The decline in the fortunes of domestic steel companies, damaging reports from Wall Street and the increase in steel imports have combined to make debt and equity markets increasingly inaccessible to steel companies.

The trigger price anti-dumping system should deter unfair import competition, and thus result in an increase in domestic steel production and industry earnings. The steel industry will also benefit from passage of the Administration's general tax package, which will probably include a number of measures which, on balance will stimulate investment and increase cash flow in the steel industry as well as other industries.

Assuming that the industry spends $2.5 billion per year on maintenance and replacement, $1 billion on pollution control equipment, and $0.5 on additional modernization projects, its annual capital requirements should average $4.0 billion (in 1977 dollars) over the next several years. Given that 1977 cash flow is likely to be no higher than $2.2 billion, there is a $1.8 billion gap between industry cash flow and investment requirements. The combination of the trigger-price anti-dumping system and general tax reform will not completely close this gap but it should narrow it appreciably. With increases in volume, improvements in cash flow, and widening profit margins, the industry should be in a position to finance the remainder through the capital market.

<u>In addition to these general tax package measures the Task Force recommends that the Internal Revenue Service (IRS) investigate the feasibility of reducing guideline life for depreciation of new steel industry machinery and equipment from 18 years to 15 years</u>. Under the asset depreciation range (ADR) system, and with an 18 year guideline life, the industry can depreciate its machinery and equipment over a period of 14.5 years (20% less than the guideline life). The 18 year guideline life for steel is among the highest for manufacturing industries because steel equipment has tended to be longer-lived than equipment in most other industries.

Under the ADR system, if the guideline life were reduced to 15 years, the industry could depreciate equipment over 12 years. A decrease in the guideline life from 18 years to 15 years would produce additional tax benefits averaging nearly $60 million over the next four years.

This reduction of the guideline life to 15 years may be justified on the basis of high prospective investment in pollution-control equipment and more rapid modernization of basic facilities. Moreover, the U.S. steel industry has agreed to commit the increase in cash flow from the comprehensive task force program to stepped-up modernization for their steel plant and equipment.

The Task Force investigation has revealed that there are a number of smaller integrated and nonintegrated steel companies who are extremely depressed financially and who would benefit only marginally from the tax measures. These firms are located in areas where most of the recent steel plant closings and cutbacks occurred. There is the very real prospect that if these firms are not provided additional assistance they will either curtail production at some mills or even close them. Such closings or cutbacks by these firms would exacerbate the already depressed economic conditions in these areas, and remove a substantial source of capacity and competition from the U.S. steel market. The Task Force estimates that these firms currently employ approximately 83,000 workers and account for 16% of the U.S. steel industry's raw steel production.

In an effort to prevent the closing of these facilities and the substantial economic dislocation these would cause the Task Force recommends that additional funds be made available for the current and future budget of the Economic Development Administration of the Department of Commerce for industrial loan guarantees and continue to provide further appropriations for this loan guarantee fund in the next few years.

The Task Force suggests that steel firms meeting all of the following criteria be considered eligible for loan guarantees and be given priority:

-- firms with serious financial problems, with little or no access to capital markets;

-- firms seeking funds for modernization of plants located in areas of high and rising unemployment or threatened massive layoffs; and

-- firms with viable plans for modernization.

The Task Force has examined the available alternative means for providing funds to smaller depressed steelmakers for projects that are economically justified. We feel the use of EDA loan guarantees is the simplest and most direct way to assure that viable modernization projects of these firms actually receive the funds necessary for their completion. These funds may be complemented to some degree by those now available in other government programs that relate to communities with steel making facilities that require, and can justify on an economic basis, modernization projects in steelmaking.

C. Rationalizing Environmental Policies and Procedures

The steel industry is one of the largest contributors to air and water pollution in the nation. Steel plants emit into the air vast quantities of particulates, sulfur oxides, and hydrocarbons. In 1975, 20 percent of all U.S. man-made particulate pollution came from the steel industry.

Steel plants also discharge solids, acids, heavy metals, arsenic, cyanide, phenols, ammonia, oil grease and heat into the waters. The waters pollutants, like the air pollutants, are dangerous to health. Unless controlled at the source, they must be removed by expensive treatment facilities to protect the drinking water of downstream communities.

Regardless of the industry's economic situation, it is imperative that expenditures for pollution control in the steel industry be spent, to the extent possible, in a way that results in the most clean-up possible per dollar. Controlling this pollution imposes particularly significant costs on the industry at a time when it is operating at low levels of profitability. In 1977 the U.S. Steel industry expects to spend $600 million on pollution abatement investment. Estimates of the total capital costs of pollution control for the industry in the years up to 1983 range from $6.8 billion (EPA) to $14 billion (American Iron and Steel Institute) in 1975 dollars.

The current costs of meeting environmental standards represent a significant but not a major portion of the costs of steel production. Estimates made by EPA, COWPS, and the industry indicate that under present legislation and regulations these costs will rise to between 5% and 10% of the price of steel in the future.

Newer, more modern mills and processes are generally cleaner. Any given level of control is less costly to attain in new plants than to retrofit older plants. Indeed, some emission control techniques, such as dry quenching (and recycling) of steel gases are only feasible in a completely new or substantially modernized plant.

However, as the COWPS study indicates replacement of existing plants by efficient, new greenfield operations, is simply not economic at today's capital costs. The most economic path for the industry is to replace parts of existing mills or to round out existing facilities. The result is that pollution control costs will be high, particularly in the near term, as the industry retrofits older plants to bring them into compliance.

The current financial plight of the industry should not deter us in seeking a cleaner environment. <u>We do not recommend a relaxation of our basic environmental goals</u>. <u>We also recommend against differential or more lenient treatment in the regulation or enforcement for the steel industry</u>.

However, we do believe it may be possible to achieve our goal of a cleaner environment at a reduced economic cost if there were certain changes in the regulatory process. The

EPA agrees and is willing to investigate certain areas to see if this is possible and appropriate.

Openness and access: Consistent with the spirit of the President's recent Executive Order designed to improve the regulatory process, the EPA affirms it policies of openness and access to the Agency. The Administrator of EPA will make new opportunities for dialogues available with the public, including the U.S. steel industry and other industries who are regulated by it. Those opportunities will be expanded and increased in the future.

EPA will also address the following specific points in its regulatory review:

Coordination of standard-setting and enforcement for EPA programs: EPA will coordinate all future air and water pollution standard-setting and enforcement efforts for the steel industry, as well as future environmental requirements under the toxic substances and solid waste statutes, to ensure that they are compatible.

Coordinating EPA and OSHA regulations: EPA and OSHA will coordinate their regulatory efforts to insure that regulations for steel mills are compatible. EPA will continue to consider the combined effects of the costs of EPA and OSHA requirements in assessing the appropriate levels of control in future EPA regulations.

Banking of emission offsets: EPA is reviewing its current policy for location of new polluting facilities in areas which violate air quality standards. EPA policy requires that before a new polluting facility can be constructed in an area violating air quality standards at least as great an offsetting reduction of pollution from existing sources of pollution must be accomplished. The current policy does not generally allow emission reduction occuring at one time to be "banked" or "saved" to offset future emission increases, but EPA will review its policy to determine if this banking of offsets is desirable.

EPA will also examine the following additional issues to determine whether they are practicable and appropriate:

-- Whether air pollution permits for new industrial facilities should be issued to new facilities on a plant-wide basis rather than on a process-by-process basis. This approach of specifying a total amount of emissions of each given pollutant allowable for an entire plant would provide a firm the flexibility to control emissions from whichever part of the plant can be controlled at lowest cost.

-- How possible disincentives to modernization should be considered in setting future New Source Performance Standards.

-- Whether EPA's policy on location of new polluting facilities in areas not meeting the health standards should be modified or extended.

-- Consider the impact of State regulations which require new operating permits for reopened facilities.

In general the EPA review of its regulatory processes and standards should reduce rigidities and unnecessary barriers to modernization.

D. Community and Labor Assistance

In recent months there have been numerous plant cutbacks or shutdowns. These cutbacks and shutdowns resulted in the permanent loss of around 20,000 jobs, and an additional 1,100 workers are scheduled to be dismissed by the end of the year. The loss of jobs while tragic is only one element of the impact of these plant closings or cutbacks. The impact on the community and region in which the plant is located is also substantial. Steel plants generate substantial indirect income and employment through their purchases from supplying firms and peripheral businesses. Steel firms also pay substantial amounts of state and local taxes. The impact of a plant closing on a community is much broader than the direct job and income loss and is particularly severe when the bulk of the smaller businesses in a community are heavily dependent on the plant. Unfortunately this is the case for several of the communities where recent plant cutbacks or shutdowns have occurred.

The impact is further aggravated because the recent plant cutbacks or shutdowns tend to be concentrated regionally. Eight of the 16 plant closings and cutbacks and 78% of the resulting job losses occurred in a region which includes parts of the states of Ohio, Pennsylvania and New York.

These affected steel communities have vital interests in retaining, or in come cases recovering, their economic viability. This interest -- which includes workers and their families, small businesses, and often the main portion of the community's overall economic base -- needs to be considered in the design of any comprehensive plan of assistance for the steel industry. The direct human impact of massive layoffs and shutdowns can be seen wherever major steel plants have been closed. They call for highest priority in the search for all reasonable and appropriate actions that can lead to rebuilding these local economies.

There are two broad approaches for providing assistance to these affected steel communities. The first is to revitalize steel plants that were cutback or shutdown, where the revitalization is economically viable. The loan guarantee fund described in Part III. B above focuses on this goal. The criteria for loans are geared toward providing assistance to firms located in areas of high unemployment or areas threatened with massive layoffs. Thus they are also strongly oriented toward community assistance. The second approach is to provide transitional and longer term assistance to communities and affected workers where plants have been shutdown or cut back and cannot be revitalized, and there is thus a need to seek out other alternatives.

A flexible and effective source of support for this second approach to community recovery and future health is the funding available under the economic adjustment authority of Commerce's economic development and adjustment aid to assist States and local areas to meet needs arising from actual or threatened severe unemployment.

EDA has funded several Title IX projects related to steel industry problems. These include a wide range of projects in the Mahoning Valley; Gary, Indiana; and Lackawanna, New York.

In Gary, Indiana, recent cutbacks in steel led to the need for drastic action to revitalize the City, diversify its economic base, and enable the City to regain a sound economic base. Following development of an adjustment strategy, a Title IX grant of $6.6 million was made to the City.

Title IX funds can be used for one or more of the following purposes: (1) public facilities; (2) business development; (3) planning; (4) research; (5) technical assistance; (6) public services; (7) rent supplements; (8) mortgage payment assistance; (9) relocation of individuals; (10) training; (11) unemployment compensation if the eligible recipient is a State; and (12) other appropriate assistance.

Since this flexible source of Federal support is effective in allowing communities to carry out local initiatives that could lead to viable community economic recovery plans, we recommend that up to $20 million of the remaining FY 1978 appropriations for EDA's Title IX authority be made available for worthwhile proposals from communities with actual or threatened unemployment due to cutbacks in steel production.

Funds are also available under two other EDA authorities: Title I - Regular Public Works and Title III - Technical Assistance. In fiscal year 1978, $184 million was appropriated for EDA's Title I public works projects. However a large portion of this total has either already been committed for approved projects or has been earmarked for priority projects in the pipeline. To the extent that steel communities qualify under the standard criteria used to allocate these funds, this assistance is being made available. However, there are a wide variety of demands and priorities for public facility financing, and it would be prudent to expect that only a small portion would coincidentally end up in steel communities.

EDA's 1978 appropriation for technical assistance under Title III was only $10 million. The bulk of these funds have already been committed or allocated for pipeline projects. There may be some coincidental use of these funds for steel areas, but it would be more advisable to use Title IX funds for technical assistance purposes in steel communities and disregard the small additional potential which might conveivably be squeezed out of technical assistance .

An additional and potentially significant source of aid that could be provided by the USG is to make affected communities aware of the possible economically viable uses for abandoned steel facilities. It may not be economically possible to continue steelmaking in some areas. The market may have shifted to another area of the country and plant location and other factors may prohibit production at competitive costs.

There are several alternative uses for abandoned steel facilities. For example, the Department of Energy and the EPA are currently reviewing one alternative of a gasification process which uses abandoned blast furnaces to produce industrial fuel gases that may be sold to the steel industry and utilities.

<u>We recommend the formation of an interagency task force consisting of the Department of Energy, the Environmental Protection Agency and the Department of Commerce which would review and evaluate alternative uses for abandoned steel facilities and report their findings</u>.

Within the context of community self-help and potential alternative uses for abandoned steel facilities there are currently several groups from areas with substantial layoffs who are developing feasibility studies with the objective of community and/or worker takeover. While there is some precedent for this endeavor it is impossible at the present time to judge whether these efforts will be successful. We believe, however, that in selective cases and under certain conditions community and or worker takeover may prove to be realistic and economically viable if it can be accompanied by sufficient modernization. However, the judgment as to its viability must be made on a case-by-case basis and can only be made after a hard-headed feasibility study.

<u>We recommend that the EDA, and other relevant agencies give consideration in their analyses of funding requests to economically viable projects involving community or worker takeovers of abandoned steel facilities</u>.

The Task Force also believes that action on the proposed trade adjustment assistance program would offer substantial help to the affected steel communities and their unemployed labor force. It would also provide the Congress with guidance in any legislation that they might propose. <u>The Task Force recommends therefore that a final decision be made, before the Congresss resumes, in January on the exact content of the trade adjustment assistance package</u>.

E. Other General Measures and Recommendations

The task force investigation has exposed several areas where small but significant changes in existing policies or practices or their clarification could lead to an increase in the efficiency of steel firms-in particular the weaker firms-thus promoting competition and employment in the industry. These areas include joint ventures and mergers, funding or research and development, and transportation systems.

Joint ventures and mergers. Some recent studies suggest that certain kinds of joint ventures in the steel industry (e.g., furance melt capacity, coke ovens, research and development) could reduce costs, lower energy consumption and make it easier to meet environmental standards. In addition, it is possible that mergers of small firms could lead to increased efficiency as a result of scale economies. On the other hand, both joint ventures and mergers between actual or potential competitors can reduce competition, increase prices, and lower incentives for individual firm innovation.

There is some interest in the industry in both joint ventures and mergers, but the application of the antitrust laws to such activity must be considered in the light of the specific facts and circumstances of each proposal. While the Department of Justice cannot limit or completely clarify the scope of the antiturst laws, it does have a procedure for stating in advance its enforcement intentions for proposed business conduct, including joint ventures and mergers

<u>The Task Force recommends that the Departments of Justice expedite its evaluation of requests by steel companies for the Department's enforcement intentions as to specific joint ventures or mergers</u>.

<u>Research and Development</u>. The steel industry is the second largest energy consumer among U.S. industries and is a major polluter. The development of new technology which saves energy and reduces the costs of pollution control would lower the industry's costs. However, the industry's total R&D spending as a percentage of sales is the lowest of all U.S. industries except for food and textiles. This is due in part to the depressed earnings in the industry. Policies that permit sharing of costs could reduce the burden of individual firms and could spur spending on R&D.

Federal contributions to industry R&D are currently heavily imbalanced in favor of a few industries. Despite the fact that steel is an important basic industry, Federal contributions to the steel industry's R&D expenditures are low, representing only 3% of the industry's R&D spending -- compared with 9% for the chemicals, 14% for the machinery industry, 47% for the electrical equipment, and 78% for the aircraft industry.

The Task Force recommends that in addition to your request for expedited evaluation by the Justice Department of steel industry R&D joint venture proposals, the President direct that an examination be conducted of the adequacy of Federal R&D funding in the steel industry with special reference to funding of research on energy conservation and pollution abatement technology. ok

Transportation. Transportation costs are relatively important for steel and other basic industries, particularly those located at inland sites. The Task Force has evidence indicating that rail service is currently more expensive than truck service for bulk commodities in some areas of the country because of regulations and other characteristics of the transportation system. For example, iron ore is transported to Youngstown by truck rather than rail because of the differences in rates and time required for delivery. An alternative now under investigation that would lower costs is the concept of unit ore trains.

A vigorous pursuit of opportunities to increase the efficiency of transportation systems and reduce their costs is also compatible with the Administration's announced objectives on regulatory reform and the public interest.

We therefore recommend that a task force be established to review transportation systems serving the steel industry that will report to you on what regulatory and other reforms could be made to improve the efficiency and to lower the costs of these systems.

Conclusion

This program will provide the industry with an opportunity to regain a strong competitive position in the domestic economy. Specific proposals are developed to respond to each of the major areas where government policies impact upon the industry. Other problems critical to successful recovery must be dealt with by the companies and the workers. The success of individual business firms cannot and should not be guaranteed by the government. At the same time, the government does have an obligation to maintain competition based on normal concepts of fairness, and to avoid undue government impingement on the operations of any individual firm or industries.

In order to insure that the specific measures of this program are enacted in an effective fashion we believe that a continuing dialogue with the industry and labor will be useful. The problem of the steel industry cannot be resolved by the government or the industry alone.

Without intruding into the domain of collective bargaining a tripartite committee of labor, business, and the government can help promote greater efficiency and provide for a continued exchange of views.

<u>We recommend the establishment of a tripartite Committee of industry, labor and government representatives as a mechanism to ensure a continuing cooperative approach to the problems and progress of the steel industry</u>.